Results analysis: Vietnam Enterprise Investments

VEIL has delivered strong 2024 results under its new manager...

Update
30 April 2025

- **Vietnam Enterprise Investments (VEIL) has reported strong results for the financial year ending 31/12/2024. The NAV total return was 14.3% in GBP terms, ahead of the 12.1% total return of the VNI Index. The share price total return was lower though, at 9.9%, as the discount widened.**
- **The strong returns follow the appointment of Tuan Le Anh as lead portfolio manager in February 2024. A more diversified portfolio and an increase in mid-cap exposure helped deliver the improved relative performance.**
- **Strong earnings growth in the Vietnamese market drove prices higher, and outweighed the impact of foreign investor outflows in the light of negative investment sentiment towards emerging markets.**
- **This poor sentiment will have contributed to the discount widening from 18.1% to 21.2% over the year. The board responded with a substantial commitment to buybacks as well as further investment in marketing efforts. During the year, the company repurchased c. 8.1% of the weighted average number of shares.**
- **The board has also proposed a five-year performance-related 100% conditional tender offer. This will be triggered if the NAV total return underperforms the VN Index in the five years to 31/03/2030, if approved by shareholders at the AGM.**
- **The management fee has also been simplified and reduced to a flat rate of 1.5% with effect from 01/07/2024.**
- **Since the year's end, Vietnam has been targeted with high tariffs by President Trump in his initial proposals, which have seen the market take a hit.**
- **Board chair, Sarah Arkle, said: "President Trump's recent introduction of very high tariffs has derailed the previously very positive economic outlook for Vietnam. Whilst Vietnam's economic growth could come in significantly lower than had been expected, the portfolio remains focused on strong companies that will benefit from domestic growth and increased infrastructure spending as sentiment towards the economy and market returns."**

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Kepler View

Last year's strong results owed much to the restructuring work Tuan Le did upon taking over management responsibilities. He added 13 new positions and sold five, whilst boosting the allocation to eight high-conviction holdings. Meanwhile 19 higher-beta stocks were trimmed. The portfolio thereby became more diversified, and more exposed to key areas of conviction. On a sector level, this means financials, real estate, consumer discretionary materials and IT. On a market cap level, this means the small and mid-cap names. The combined weight of these positions at the end of the year was 9.9% versus an overall weight of 5.5% in those names in the index. These positions contributed 6.7 percentage points to overall performance in 2024, driving the excess returns versus the benchmark. Notably, **Vietnam Enterprise Investments (VEIL)** outperformed in each quarter of 2024, which the managers attribute to the more balanced portfolio positioning.

However, over 2024 there was undoubtedly a bias towards an economic recovery in the portfolio, with the manager leaning into a rebound in consumer spending via consumer discretionary stocks, retailers and financials. Some of the main contributors to performance came from these areas, including Mobile World Group and FPT Retail. Alpha also came from the banking sector, where good stock selection led to positive attribution for the sector despite the portfolio being underweight it as a whole; Techcombank was the key driver of this success. Meanwhile, the overweight to real estate didn't come off over the year, with the team expecting a recovery in share prices to flow from more positive consumer and monetary environments. Materials and resources stocks were also detractors. Although Tuan Le reduced the overweight to steel producers substantially, the portfolio retained a modest overweight at the end of the year.

Early 2025 has seen greater uncertainty for the outlook for Vietnam after President Trump's initial proposals of surprisingly high tariffs on the country, of 46%. Negotiations are ongoing, and it seems likely it is Trump's intention to iron out a deal which will see a lower final rate. Nonetheless, tariffs do create challenges. The Dragon Capital team note that the direct impact on company revenues will be limited, although there are secondary impacts to consider, and overall high expectations for GDP growth this year may have to come down slightly. They note that on the plus side, tariffs are incentivising the Vietnamese authorities to accelerate the shift to domestic-driven growth, while support packages are expected to offset any negative impacts. The team still expect the market to deliver high single digit earnings growth in 2025, even after the impact of tariffs and they note the portfolio has very little direct exposure to impacted sectors.

The team also highlight that there are early signs the real estate sector is experiencing the recovery the manager expected late last year, which could provide momentum to the banks as well as VEIL's direct holdings in the real estate sector. The authorities are investing heavily in infrastructure too, which should be a powerful engine of credit expansion, employment and economic growth. The structural story in Vietnam is still well intact, in our view, notwithstanding the negative implications of any tariffs. Additionally, the expected upgrade of Vietnam to secondary emerging market status by FTSE this year should boost the market by bringing in some passive flows from overseas investors. In our view, the prospect of tariffs has highlighted to investors the risks of being over-exposed to US assets and is leading to a rebalancing of investor portfolios back into the regions and countries that have long been overlooked. It could therefore be that the emerging markets, including Vietnam, start to see foreign investors come back in. Vietnam's foreign ownership levels hit 10-year lows at the end of 2024, and we think the tariff negotiations could well signal the end of a whole series of multi-year trends.

VEIL's board has been substantially refreshed over the past year, with a new chair and two new directors appointed with knowledge of the London and Asian markets. The management fee has been cut, the funds committed to buybacks have been substantial, and the 100% conditional tender offer is a weighty commitment. With the shares on a discount of c. 21% at the time of writing we think Vietnam and VEIL looks attractive as a cheap recovery play.

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