



Endurance Capital continued to outperform as Vietnam's GDP YTD grew by a record 8.8%

With now 10 years living and working in Vietnam it was hard not to feel the difference in the rapidly expanding Vietnamese economy as it grew 13.7% in Q3 and brought 2022 GDP growth to 8.8% for the first three quarters – the highest number for the period since 2011. Despite the remarkable GDP growth in Q3, markets by the end of September had moved in the opposite direction. But in spite of the challenging market environment, Endurance Capital Vietnam I continued to outperform and thereby extended its 36 months rolling record vs the VNIndex to +48.7% (p.p). (All performance numbers in The Activist Diaries are - unless otherwise stated - measured in USD terms. More details on markets and performance can be found further below.)

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The strong growth's main underlying reasons are many - albeit a bit camouflaged in low base pandemic comparisons – but even when adjusting for those it is hard not to be impressed. Vietnam's complimentary advantages of having a population fully vaccinated with functioning vaccines and a living-with-the-virus strategy lay the bed for being able to open up its borders earlier than other countries in the region (some of which still have restrictions) and thereby start the journey back to normal way ahead of its regional peers.

To the surprise of some, a full two thirds of Vietnamese GDP is consumer driven and we were impressed to see Services growing by an impressive 18.9% YoY as the sector contributed 54.2% of the overall GDP growth in the quarter. The industry and construction sector contributed 41.8% and grew by 12.9% YoY mainly driven by manufacturing which grew by a strong 13.9%. As a result, Vietnam is now expected to grow its GDP by more than 8% for the full year of 2022.

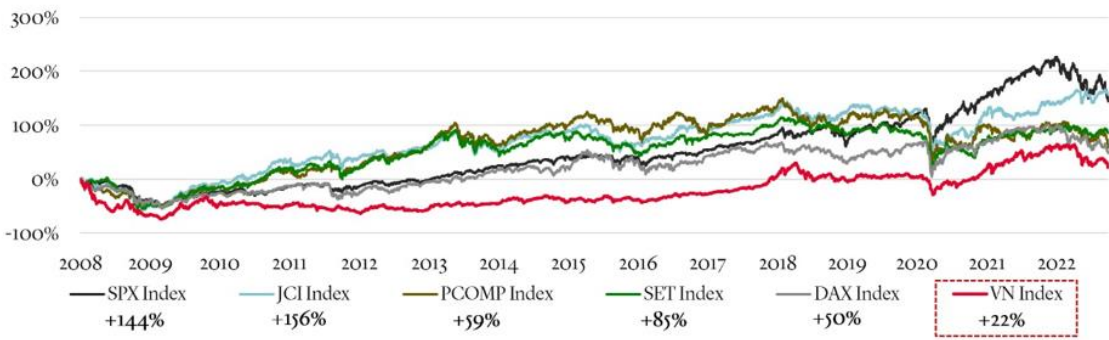


Representatives of Danish toy maker Lego being briefed by officials from the southern Vietnamese province of Binh Duong on how the land clearing process would be speeded up and finalized by end of Q3. Lego in May announced that its first ever carbon-neutral factory would be built in Vietnam – an investment totaling 1 billion USD to be taken into operation in 2024.

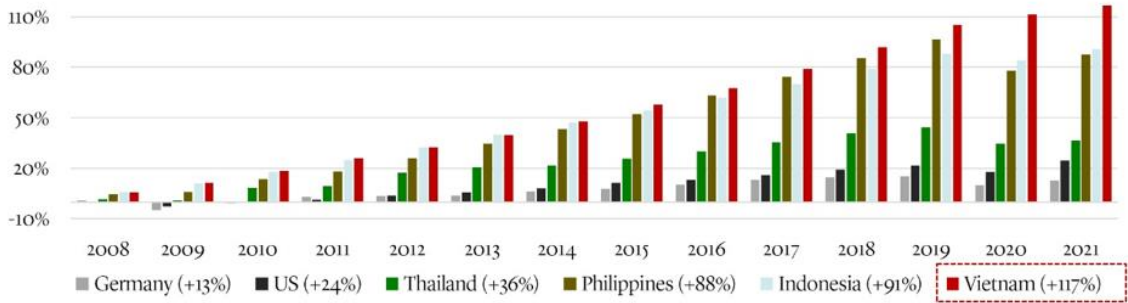
Most other macro KPIs were stable in Q3 - partly as a result of Vietnam's twin budget and trade balance surpluses. September CPI came in a mere 3.94% higher YoY bringing inflation YTD to 2.73%. Unemployment fell to 2.07% in Q3 and the Vietnamese Dong (VND) depreciated by 4.3% vs the USD YTD making it the region's best performing currency vs the USD in 2022. One of the main reasons to this important achievement is a good handling of the pandemic (which Vietnam got through without having to spend significantly from neither the fiscal budget nor its currency reserves) and the State Bank of Vietnam's competent management of the VND. Raising their policy rate by 1% in Q3 allowed it to spend only a small part of its over 100 BN USD foreign currency reserves to support the Dong, while at the same time making sure deposit rates still surpass inflation and thereby making exchanging VND into USD less attractive. Vietnam was during the quarter rewarded with rating upgrades by both S&P (to BB+) and Moodys (to Ba2) - another indication of its decoupling from the current bearish global macro trend.

This positive economic development, which essentially made Vietnam one of the World's best performing economies in Q3 (and probably would turn the faces of quite a few finance ministers around the globe green with envy) nevertheless failed to impress public markets. As described below, global pressure on public equities dragged Vietnamese equities along to levels now approaching the ones before Lehman – a time when the Vietnamese economy was less than half its current size.

Vietnamese equities has increased their value a mere 22% since the Lehman crash...



...while Vietnamese GDP had a cumulative growth rate of almost 120% in the same period

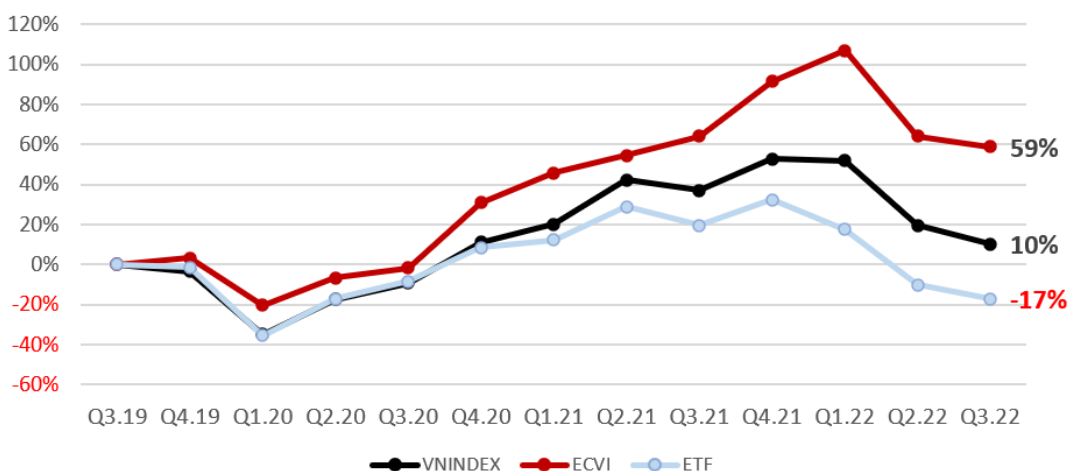


Source: World Bank, Bloomberg October 2022

Endurance Capital outperformed as the VNIndex followed global equities' downwards trend

Q3 meant a continued slide for the VNIndex as it dropped by a total of 7.82% in Q2 to end the first three quarters of 2022 down a total of 28.8%. The drop in Q3 was very much in line with stock markets globally reacting to a feared slowdown in many of the World's biggest economies as their central banks fight inflation with the steepest rate hikes in 40 years. While the movement is understandable in the light of the current state of the global economy and its implications for growth and earnings in coming years, market participants struggled to pair the falling share prices in Vietnam with the many positive reports of the Vietnamese economy and the expectation that the earnings per share for the companies in the VNIndex currently are expected to grow by ~15% in 2022. Nevertheless, Vietnamese equities ended the quarter valued at 11x forward earnings - making them trade 20-40% cheaper than regional peers.

Cumulative gross quarterly returns % Q4 2019-2022 Q3, Endurance Capital Vietnam I (ECVI) vs VNIndex, and relevant ETF



Endurance Capital Vietnam I - which holds a concentrated portfolio of quality Vietnamese mid-caps - did 4.6% better than the VNIndex in Q3 but still closed Q3 down by 3.2%. As a result, the fund has by the end of Q3 2022 generated a gross return of 58.6% over the past 36 months - a period where the VN Index returned 10.2% and the relevant ETF generated a negative return of -17.2%. Correspondingly, Endurance Capital Vietnam I's result represents a gross annualized return of 16.7% for the same period. At the same time, the beta value for the fund within this time frame was a low 0.6 which means the return was generated at a significantly-lower-than-the-market risk level.

The Endurance portfolio holds 12 holdings with a weighted average net margin of 33.4% and an estimated sales growth of 29.1%. The weighted average expected annualized return in the portfolio at the close of Q3 was 37.5%. Endurance Capital Vietnam I reports in USD, but in the light of the recent currency swings globally, it could be interesting to know that an investment held in the past 12 months in Endurance Capital Vietnam I would have had a gross 11.7% return in EUR, a 13.4% gross return in GBP and a 17.1% gross return in SEK.

We feel that the treasure chest of first-hand research that we have gathered over the years is increasing in value each day the shares of the favorite future Vietnamese large caps in which we are not yet invested get cheaper.

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Weighted Portfolio KPIs Endurance Capital Vietnam I	
# of public holdings	12
Market cap range MUSD	25-5 000
Sales range MUSD (2022E)	20-1 550
Sales growth (2022E)	29.1%
Net margin (2021)	33.4%
ROCE (2021)	14.0%
Dividend yield (2022E)	3.1%
Price earnings ratio (2022E)	11.8x

36 Month Rolling Quarterly Gross Performance - Endurance Capital Vietnam % (USD) - Q4 2019-Q3 2022

	Q4.19	Q1.20	Q2.20	Q3.20	Q4.20	Q1.21	Q2.21	Q3.21	Q4.21	Q1.22	Q2.22	Q3.22
ECVI	3.31%	-22.94%	17.22%	5.21%	33.23%	11.46%	5.93%	6.18%	16.71%	8.12%	-20.71%	-3.20%
VN INDEX	-3.56%	-32.44%	26.86%	9.76%	22.44%	8.05%	18.57%	-3.70%	11.32%	-0.46%	-21.30%	-7.82%
ETF	-11.53%	12.27%	-3.26%	1.81%	-1.31%	-34.71%	28.74%	10.49%	18.27%	3.48%	14.86%	-7.31%

A long term capital structure to the rescue

In the past years we have often been asked to explain what's behind our outperformance and how it can amount to such margin in what is essentially a public market of daily traded mid caps. Our answer has remained consistent as we point out that we are a team of 6 professionals essentially applying a private equity model of first-hand research and active engagement to a concentrated portfolio of ca 10 carefully selected potential future Vietnamese large caps – and that we do that via a long term capital structure. That last point is of critical importance – especially in times of high volatility. While self-explanatory to some, an example can help visualize what this means in practice in markets like we have seen in the past quarters.

First imagine a public equity asset manager with a diversified portfolio of ca 30 names of Vietnamese public equities selected via secondary research and with a monthly fund liquidity. Unless he or she is sitting with an unusually large cash position, a big fall in markets will force a choice to quickly sell into a fast falling market to create liquidity to service the redemptions that are normally following. Now compare this to the long term capital structure situation where the combination of our lock-ups and concentrated portfolio means that our 6 people strong team both have ample time to find out how the event that triggered the fall in share prices actually will affect a portfolio of ~10 holdings that are well known to us. In our specific case we have access not only to the companies themselves but also to the ca minimum 20 people around each company (that we have gotten to know in the 4-24 months of first hand research done before investing) in that information gathering process. These are major advantages which contribute to better researched investment decisions and thereby better safeguarding of returns for investors.



Many public equity managers were forced to sell into a falling market in the past two quarters – with a long term capital structure and a concentrated portfolio of names selected by deep first hand research – they might not have had to.

Having now experienced high downward volatility both during the pandemic and in the past two quarters we can see some similarity in both processes and outcomes. In both situations we in the months after the market events occurred had the time to redo the research for the full portfolio, learn about the real effects of the events and then make informed re-allocation decisions that on both occasions have proven to be value creating. In both cases the outcomes of these exercises were also similar:

- A qualified majority of our portfolio holdings were doing ok and needed no assistance in spite of dramatic changes in market environment – perhaps at least partly a testament to the quality of our first hand research.
- Only one holding on each of the occasions was considered to be in need for further analysis towards a potential exit, as the fundamentals had dramatically changed. It should be noted that in the case where an exit happened, it did so without a fire sale of the holding being needed
- The remaining 1-2 holdings just needed some extra hands to soldier through the new environment safely – hands that Endurance Capital's operationally experienced team could provide by actively engaging with the companies.

We remain convinced that not only is our deep first hand research process a vital strategy component in an environment where public companies are young and information is scarce, but also that our lock-ups are a very powerful way to enable stellar execution of an investment strategy in a transition economy with very positive long term trends and occasional high levels of short term volatility. The 10.8% percentage points with which Endurance Capital Vietnam I outperformed the VNIndex YTD and the 48.7% points of outperformance in the past 36 months rolling are indications that we are right in our conviction.

BLUE 72% Return / 43% IRR

BLUE is the leading utilities company in Vietnam with main businesses consisting of distributing clean water and providing waste and wastewater treatment services to households and enterprises in Binh Duong province, one of the fastest-growing regions in the South of Vietnam. The company holds a monopoly position in water distribution business in Binh Duong through an extensive pipeline system that covers more than 5,300 km and supplies water to more than 325,000 customers. Moreover, BLUE is also the most efficient water company in the country with a loss ratio of only 5.0% in 2021 as compared to the national average of ca. 18%.

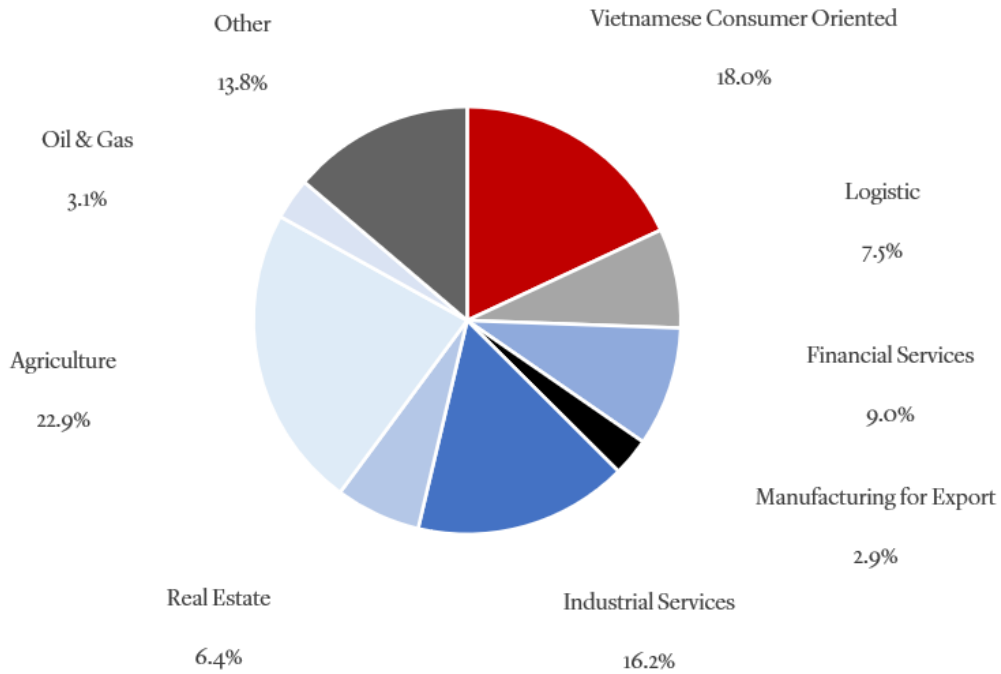


PHARAO 64% Return / 37% IRR

PHARAO is the leading jewelry company in Vietnam with market share of ca. 56.5% in 2021 (in mid- to high-end jewelry market) and with the distribution network of 346 stores as of May 2022. The company specializes in producing and retailing gold jewelry, silver jewelry, and gold bars under their own brands. In addition, the company has 3,000 wholesale customers and exports to 11 countries including Australia, EU, USA, and Japan. PHARAO provides a wide variety of products for women via several well-known brands and sub-brands each targeting a specific target audience. PHARAO's latest jewelry-accessory concept (introduced in 2020) which targets young consumers with products being designed to match consumers' characteristics has been well-received by the markets and delivered positive results. PHARAO also applies an ERP system and a digitalisation program to optimize business processes.



Share of AUM Endurance Capital Vietnam I YTD Q3 2022



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Third Quarter 2022

Vietnam can expect a double growth injection from China in the years ahead

It is a massive understatement to say that the global economic and geopolitical outlook has been looking gloomy lately. For many working the markets, the past quarters' days of trading have probably meant putting up a significant psychological effort just to remember what hope looks like by the closing bell. Many of the world's biggest economies are facing inflation levels not seen in 40 years and are widely expected to enter recessions due to the steep rate hikes their central banks are in the process of imposing in order to bring those levels down.

Vietnam is obviously not unaffected by this situation. As an open export-oriented economy it is given that some of the effects from these negative developments will be felt going forward. We for instance expect to see slowdowns in manufacturing as cash-strapped western consumers buy less in the coming quarters and forecast depreciated currencies will not help European tourists to show up in droves this winter. That said - and as described below - there are many factors pointing towards Vietnam being one of the more attractive places to weather the turmoil as it continues to follow the clear macro decoupling trend that we have seen it on YTD 2022.

In the short term, Vietnam's twin surpluses and stable currency makes it well equipped to ride out even big economic storms while continuing to being one of very few countries facing an inflation lower than its GDP growth rate will help capital flow its way in a world facing mainly negative yield prospects. Vietnam's almost 100 million population and fast growing middle class will continue to consume and thereby drive Vietnam's consumer driven economy to new heights.

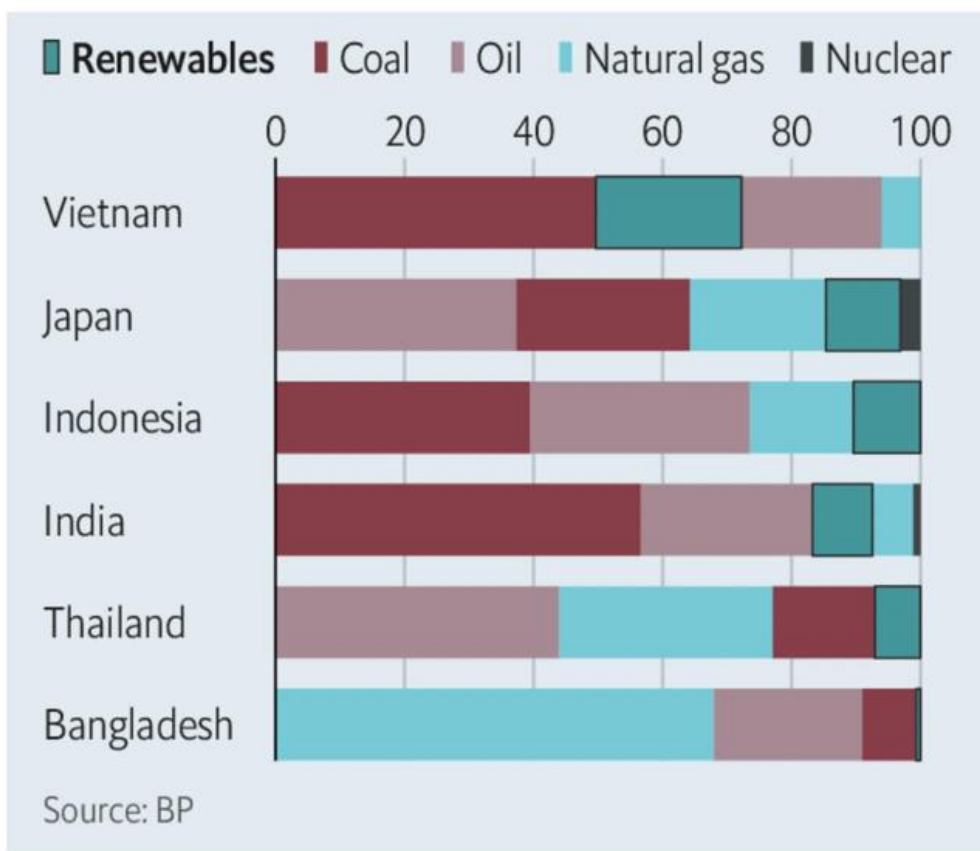
In the more medium term, Vietnam will continue to benefit from the very long term structural change within the manufacturing industry, as more producers move from China to Vietnam. The fact that China applied as heavy as unpredictable lock-down waves during the pandemic and has continued to do so throughout 2022, is continuing to drive a long list of global high value manufacturers to increasingly shift their volumes to Vietnam. An important but often under-reported effect of this shift is its impact on Vietnam's long term competitiveness. A recent study from Harvard University reached the conclusion that the complexity of the products that a country can produce is the most powerful driver of its future GDP. For a country that just secured investments for making Apple AirPods or Ipads and Samsung's semiconductor chips that's a fact to celebrate. (For the full research please visit: <https://www.hks.harvard.edu/faculty-research/policy-topics/development-economic-growth/assessing-growth-which-countries-are>).



Clean energy provider EDPR Sunseap in Q3 completed a US\$284 million acquisition of two solar power projects of Xuan Thien Group in Ninh Thuan province. Once the Vietnamese government got the green solar tariff right – investment into solar soared to a level where the bottle neck instead became a lack of capacity to connect all new solar plants to the grid.

Last but not least Vietnam sits on two other vital advantages – the country is very close to self-sufficient in terms of both food and energy which is likely to help continued decoupling by helping it to keep inflation from these two sectors low. As a fast growing nation, Vietnam has a constantly growing demand for energy, but has also managed to increase capacity rather well. By expanding natural gas infrastructure and continuing South East Asia’s most successful program for build out of renewables (if measured in terms of renewables share of the energy mix) it plans to practically double energy output capacity by 2030 and has set a target to reach net zero by 2045. In terms of food production, Vietnam produces more nutrition than it needs and is one of the World’s biggest exporters of many major staples including rice, coffee, catfish, and cashew to name a few.

Energy consumption by fuel in % in some of Asia’s most populated economies



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Higher ground



The torrential rain storm Noru brought 2000 houses in Yen Thanh district of the central province of Nghe An under water. During 4 days a total of 13 of the 21 districts in Nghe An were inundated as Noru brought 200-600 millimeters of rain.

After summer in Vietnam comes the storms, normally having lost some speed when first hitting the Philippines and after crossing the South China Sea to reach the Vietnamese shores. Vietnam's central and northern provinces are normally worst affected with resulting floodings and damaged property and on some occasions a few fatalities. The south normally gets away with very heavy rain.

Q3 ended by torrential rain storm Noru sweeping in over the central provinces of Vietnam. Four days and 200-600 millimeters of rain left many districts under water and – tragically - 7 people dead. But although terrible - these kinds of overwhelming events also shine a light on the Vietnamese people's phenomenal resilience and ability to cooperate and solve problems creatively in times of duress. A recent example from Noru and Nghe An tells how villagers went over to an affected neighbor with a flooded chicken farm to help the owner cook 4000 (!) drowned chickens so that they could at least bring some income by being processed into animal feed. Not the first item on most inundated societies to-do list perhaps – but definitely a reasonable path of action in Vietnam.

The storms are a seasonal phenomenon but they are also getting worse. Climate change has been cited as a reason and is representing a challenge for parts of the country. It is a topic which the Vietnamese general public also cares about and there are plans for how to counter the effects of a changing climate but they will take time and money to implement. In many ways spending on infrastructure is in itself one of the country's most important challenges to cope with going forward and one that will bring good multiplier effect for the economy. Thanks to good sovereign finances the country has the means to finance most of it – the challenge is more to get it built in time to keep up with the growth.



The Vietnamese owns most motorbikes per capita in the world and parking them has always been a creative business.

Just like the citizens of Nghe An who headed for higher ground – it's our opinion the Vietnamese economy and its overly battered stock market are quite likely to follow in the same direction. With Vietnamese equities trading at a forward price earnings ratio of 11x, long term investors face an attractive risk-reward ratio and will benefit from the growth in the likely increasingly decoupled Vietnamese economy going forward. With today's geopolitical situation around the war in Ukraine and the economic repercussions from it around the World it is hard to know what comes next for any economy, but we feel rather positive that for most of the turns this can take, Vietnam will prove one of the best places to have been invested in afterwards.

On the behalf of the Team/

Johan De Geer
Founding Partner

*Any Investor interested in learning more about our new Luxembourg-based investment vehicle for the very same strategy - please send an email to: johan.degeer@endurance-group.com



Recent events included the seeding of the Women's 2023 World Cup draw where Vietnam will participate for the first time in a World Cup lead by Captain Huynh Nhu (Pic). Seeded in group 3 the hope is for a draw to get to play teams such as Zambia, Italy and host New Zealand.

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Third Quarter 2022

Our Strategy – Impactful Collaborative Activism applied to a concentrated portfolio of value investments

Deep value insight from first hand research, applied via active engagement in public Vietnamese Mid Caps

With 6 people based in Ho Chi Minh City, we have already met the management teams of 80% of the ca 430 (mainly under-analyzed) public Vietnamese Mid Caps in our universe. Our shortest due diligence before investing has been 4 months, the longest 2 years.

A 3-5 year long only investment horizon, powered by an evergreen lock-up structure enabling active engagement

Our structure allows us to be truly long-term in a market that genuinely needs it and also protects our Investors from experimenting with market timing. Our long-term holding horizon aligns our interests with both our Investors and the management teams we seek to collaborate with.

Shareholder value impact from our activist team's 50+ years of experience of executive management in emerging markets combined with 40+ years of investment experience

Our team's executive experience from known brands within fields such as financial management, accounting, M&A, sales & marketing, re-structuring, corporate governance, e-commerce and general management creates unique access and levers for shareholder value creation.

Contact us

Should you find how we create excess returns in Vietnam to be of interest, we are happy to discuss it with you further in a call or meeting. Just click the button below and we will get back to you with more information.

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Third Quarter 2022

Management Team – Endurance Capital Vietnam I

Christopher Beselin

Founding Partner



- Swedish (Vietnam resident from 2012).
- Co-Founder & CEO of Lazada.vn, Vietnam's largest e-commerce company. Lazada group was sold to Alibaba for 3.2B USD in 2017.
- Investment background from active ownership at Europe's largest active ownership fund Cevian Capital (ca. 15B USD of AUM).

- MSc in Finance, Stockholm School of Economics (Sweden) & Tsinghua University (China).
- Speaks four languages plus basic Vietnamese.

Johan De Geer

Founding Partner



- Swedish (Vietnam resident from 2012).
- More than 15 years emerging market experience in CIS and Asia:
- CEO of Oriflame Vietnam & Oriflame Latvia.
- Management consultant from Boston Consulting Group.
- MSc in Finance and Marketing from Stockholm School of Economics (Sweden) & St. Petersburg State University (Russia).
- 2nd Lieutenant in the Swedish Armed Forces Reserve.
- Speaks five languages including intermediate Vietnamese.

Minh Tran

Partner



- Vietnamese.
- More than 15 years of extensive experience in both buy-side and sell-side advisory involving landmark deals in Vietnam.

- Investment Banking Director in VNDirect.
- Lead Advisory Service (M&A) Director at Ernst & Young Vietnam.
- Investment Banker at JP Morgan Investment Bank.
- The 1st Vietnam-based Certified Analyst at JP Morgan.
- Analyst at Dragon Capital.
- Educated in USA.

Hoa Nguyen

Partner



- Vietnamese.
- Generally seen as one of the best equity analysts in Vietnam.
- Deep experience from investments, equity research and financial analysis in Vietnam.
- Finance Manager at Vinamilk.
- Sr. Investment Professional at Vinacapital.
- Dep. Head of Equity research at Maybank Vietnam.
- Educated in Australia.

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