

# AFC VIETNAM FUND UPDATE

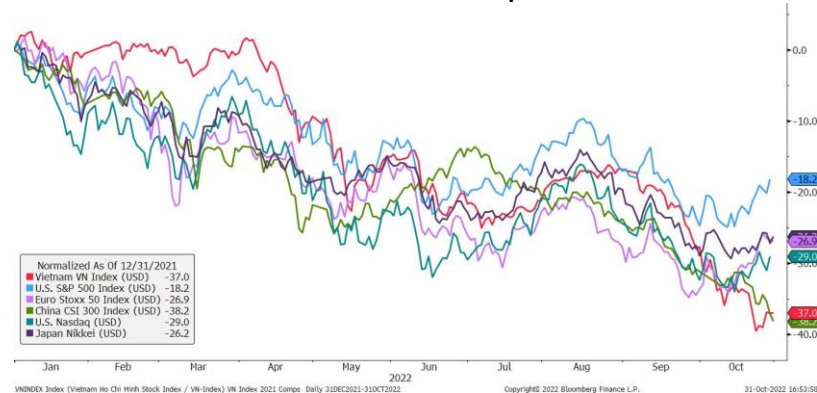
<b>Fund Category</b>	Vietnam Public Equities
<b>Country Focus</b>	Vietnam
<b>Subscriptions</b>	Monthly at NAV (five business days before month end)
<b>Redemptions</b>	Monthly at NAV 30 days notice
<b>Benchmark</b>	VN Index
<b>CIO</b>	Vicente Nguyen
<b>Investment Manager</b>	Asia Frontier Capital (Vietnam) Limited, Cayman Islands
<b>Investment Advisor</b>	Asia Frontier Investments Limited, Hong Kong
<b>Fund Base Currency</b>	USD
<b>Minimum Investment</b>	USD 10,000
<b>Subsequent Investments</b>	USD 1,000
<b>Management Fee</b>	1.8% p.a. of NAV
<b>Performance Fee</b>	12.5% p.a. of NAV appreciation with high watermark
<b>Fund Domicile</b>	Cayman Islands
<b>Launch Date</b>	23 December 2013
<b>Custodian Bank</b>	Viet Capital Securities, Ho Chi Minh City
<b>Auditor</b>	Ernst & Young, Hong Kong
<b>Administrator</b>	Trident Fund Services, Hong Kong
<b>Legal Advisor</b>	Ogier, Hong Kong
<b>ISIN</b>	KYG0133A1673

A Vietnamese property tycoon was arrested after an alleged multi-million (in USD) fraud and the State Bank of Vietnam raised key rates by another 100 basis points. This news rattled markets and the Vietnam Index declined sharply in October by -13.4% (in USD terms). Also, the Vietnamese Dong lost 4.1% against the USD in October, which of course had an additional negative impact on the NAV of our AFC Vietnam Fund, which closed the month -10.7% lower at an NAV of USD 2,678, according to internal estimates.

## Market Developments

Until the beginning of April this year, the VN Index outperformed most markets and was even slightly up, despite the outbreak of the Ukraine conflict. But after that the tide started to turn and the Vietnamese stock market also declined, despite solid macro-economic numbers and strong 2022 earnings growth forecasts for Vietnamese equities of over 20%. The reasons for the sharp correction are mostly “home grown” issues, such as corruption investigations and arrests related to the real estate and stock markets. The two interest rate hikes of 100 basis points each, with the latest raise only 1 week ago, by the State Bank of Vietnam, was one of the main reasons for the VND weakness recently.

2022 Global stock markets comparison in USD



(Source: Bloomberg)

All these factors plus concerns about increased geopolitical tensions created a lot of fear among domestic retail investors, who are still the dominant force on the stock market. This fear or uncertainty has eventually driven Vietnam’s equity market valuation to a decade low level, with a forward 2023 P/E of 8.3x, the lowest we have seen since 2012 for the VN Index!

## Buying Opportunity Vietnam stocks are the cheapest since 2012



## Contact Information

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Interesting enough, when we launched our AFC Vietnam Fund, back in December 2013, the valuations were very similar to today, with a P/E ratio of around 7.5x, P/B ratio of around 1.2x and a dividend yield of around 5.6%. Also, in March 2020, when the WHO declared the COVID-19 outbreak as a pandemic, global investors became very nervous about the economic outlook. What followed was a sharp selloff across global stock markets, especially in Vietnam where we saw very attractive valuations, but only for a very short time, until the market started to recover strongly and rallied over 68% in the 12 months following the outbreak! We also saw a very similar pattern during the global financial crisis back in October 2008, where the VN Index rallied over 53% over the next 12 months. These would have been a perfect opportunity for new investors to finally gain exposure to Vietnam or for existing investors to take advantage of these very attractive valuations in order to increase their existing exposure, but we are fully aware that this is always easy to say with hindsight.

### **The relationship between the stock market and the economy**

So far this year there are compelling macro-economic numbers for Vietnam such as for example the 2022 GDP growth forecast of around 8%. Vietnam is projected to become the fastest growing economy in Asia this year, amid a regional downturn led overwhelmingly by China's sharp economic deceleration, according to the World Bank. In its latest report which was published at the end of September 2022, the World Bank estimates that besides Vietnam in Southeast Asia only the Philippines (6.5 percent), Malaysia (6.4 percent), and Indonesia (5.1 percent) are forecasted to exceed 5 percent this year.

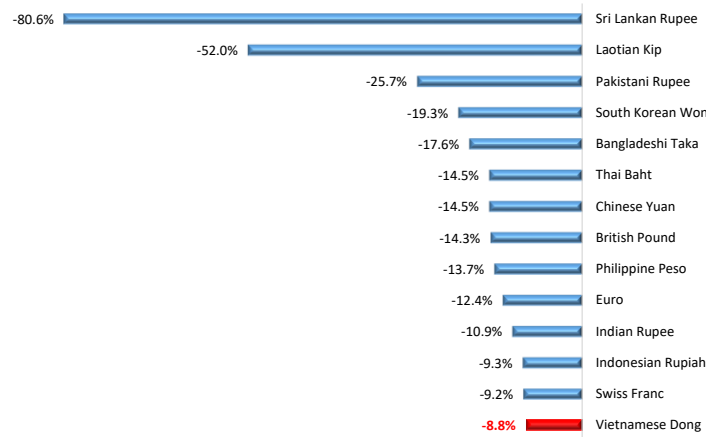
But what we also see this year is a weak Vietnamese stock market, bringing down valuations to a very appealing level. André Konstolany, a Hungarian-born economist and stock picker, who became quite famous for beating the stock market, making huge profits during the Great Depression and later during Europe's post-World War II reconstruction period. He once said, the relationship between the stock market and the economy is like a man (economy) walking his dog (stock market). The dog follows his master, and either runs ahead or behind of him – they eventually always meet, but the only problem is we don't know how long the leash is. We do of course not know how long it will take for the market to recover to new all-time highs, but we do think for long term investors it makes a lot of sense to gain or increase exposure to Vietnam now. This is also why the management team of the AFC Vietnam Fund, Vicente Nguyen, Thomas Huggler and Andreas Vogelsanger decided to take advantage of this, in our view oversold situation, and we all increased our personal investment in the AFC Vietnam Fund this month.

### **Vietnam's Central Bank widens Dong trading band and hikes key rates by 100 basis points**

On 17<sup>th</sup> October the State Bank of Vietnam (SBV) decided to increase the foreign exchange trading band from 3% to 5% to give commercial banks the flexibility to devalue the Vietnamese Dong. And only around one week later the SBV decided to raise key rates by another 100 basis points in order to stabilise the currency, but the VND nevertheless weakened by around 4.1% against the USD in October. These two decisions didn't contribute positively to the already nervous and worried mood of local retail investors, but it looks like that the SBV had no choice to let the VND weaken against the USD, in line with other regional currencies. In last month's report we wrote about how little the VND lost against the USD in comparison to other currencies. We also heard that the SBV was previously intervening quite aggressively to support the VND, and hence the market estimates that Vietnam's foreign reserves declined by about USD 20 billion from USD 110 billion to currently around 90 billion. We were asking ourselves, why Vietnam was defending its currency so aggressively and not letting it weaken against the USD in line with most other currencies. A weaker VND would of course also keep Vietnam's competitiveness in the export market attractive, given that its products would remain inexpensive. But it looks like the SBV has now changed its strategy and they started to gradually depreciate the VND versus the USD and as of the end of October, the VND depreciated around 8.8% against the USD year-to-date, in comparison to INR 9.3%, PHP 13.7% and THB 14.5% over the same period.

# AFC VIETNAM FUND UPDATE

Depreciation versus the USD as of 31<sup>st</sup> October 2022, year-to-date



(Source: Bloomberg, AFC Research)

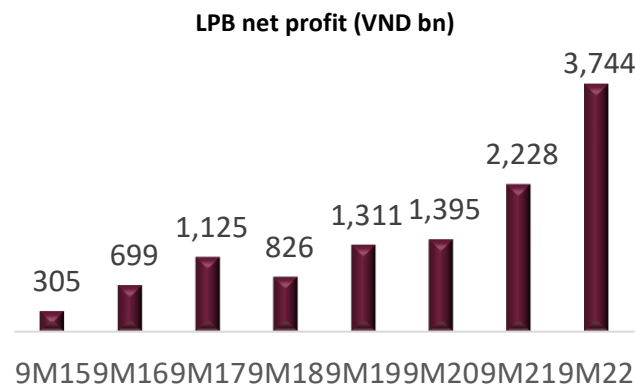
## The latest arrest

Mrs. Truong My Lan, the chairwoman of Van Thinh Phat Holdings Group (VTP), one of Vietnam's largest real estate developers, was arrested on suspicion of financial fraud as the country intensified its long anti-corruption drive. She was accused of illegally issuing corporate bonds to raise trillions of Dong (tens of millions in USD) from investors between 2018 and 2019. Some of these corporate bonds were apparently sold to retail investors at attractive terms, against the State Bank of Vietnam's guidelines. But the Ministry of Public Security of Vietnam announced that further investigations are under way to clarify the frauds. It is most likely that VTP group will have to pay back retail investors holding their bonds, but given the group's significant assets, this won't create a problem for them.

Even though these recent corruption and fraud investigations with a series of high-profile corporate arrests, including top stockbrokers, property developers and even regulators are hurtful for financial markets in the short run, we believe they are very important and positive for the future economic development of the country.

## Q3/2022 company results

Many companies already released their Q3 results in October and some of them showed impressive growth, such as for example Lien Viet Post Bank (LPB), one of our bank stocks in the portfolio. LPB reported an impressive 61.4% growth in Q3/2022 net profit! LPB is now trading at an incredibly attractive valuation of a forward P/E of 3.5x and P/B 0.7x.



(Source: LPB, AFC Research)

## AFC VIETNAM FUND UPDATE

But besides LPB, many other bank stocks are vastly undervalued. According to Viet Capital Securities, around two thirds of all listed bank stocks are currently trading at P/E ratios based on 2023 earnings of around 5x!

Ticker	Sector	Mkt Cap, USDm	30D ADTV USDm	FY22F P/E	FY23F P/E	Sector TTM P/E
<b>TCB</b>	Banks	3,614	6.6	4.1	3.5	8.3
<b>STB</b>	Banks	1,330	11.5	7.6	3.4	8.3
<b>MBB</b>	Banks	3,235	6.8	4.4	3.8	8.3
<b>ACB</b>	Banks	2,905	2.7	4.9	4.6	8.3
<b>TPB</b>	Banks	1,325	1.8	4.9	4.4	8.3
<b>VPB</b>	Banks	4,365	12.1	5.6	5.8	8.3
<b>CTG</b>	Banks	4,546	3.6	6.7	4.9	8.3
<b>HDB</b>	Banks	1,713	1.3	5.2	4.4	8.3
<b>VIB</b>	Banks	1,753	1.7	5.2	4.2	8.3
<b>VCB</b>	Banks	13,101	3.2	12.5	9.2	8.3
<b>BID</b>	Banks	6,806	1.6	13	9.2	8.3

(Source: Vietcapital)

### Economy

Macroeconomic Indicators				
	2019	2020	2021	Oct-22
GDP	7.02%	2.91%	2.58%	8.83%
Industrial production (YoY)	8.9%	3.4%	4.8%	9.0%
FDI disbursement (USD bln)	20.4	20.0	19.7	17.5
Exports (USD bln)	264.2	281.5	336.3	312.8
Imports (USD bln)	253.1	262.4	332.3	303.4
Trade balance (USD bln)	11.1	19.1	4.0	9.4
Retail sales (YoY)	11.80%	2.60%	-3.80%	20.20%
CPI (YoY)	2.79%	3.23%	1.89%	2.89%
VND	23,230	23,108	22,782	24,845
Credit growth (YoY)	12.1%	10.5%	13.0%	10.5%
Foreign reserves (USD bln)	73	92	105	90*

(Source: GSO, VCB, State Bank, AFC Research)

\*According to internal estimates

### Subscription

The next subscription deadline will be 24<sup>th</sup> November 2022. If you would like any assistance with the subscription process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

# AFC VIETNAM FUND UPDATE

## Estimated NAV as of 31<sup>st</sup> October 2022

NAV	2,678*
Since Inception	+167.8%*
Inception Date	23/12/2013

## Monthly Performances AFC Vietnam Fund

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2013	USD												+2.37%	+2.37%
2014	USD	+8.75%	+4.50%	+2.18%	-4.65%	-0.32%	+1.45%	+1.86%	+5.49%	+3.87%	+2.83%	+2.50%	+0.60%	+32.50%
2015	USD	+0.44%	+1.76%	-0.96%	+1.93%	-0.48%	+0.06%	+0.22%	-4.57%	+1.18%	+6.90%	-1.82%	+0.25%	+4.62%
2016	USD	-0.10%	+3.30%	+1.28%	+3.17%	+1.40%	+4.97%	+3.0%	+0.13%	+0.11%	-1.83%	+0.88%	-1.76%	+15.29%
2017	USD	+1.90%	+1.10%	+1.94%	+1.03%	+2.96%	+4.52%	+1.94%	-4.38%	+1.09%	-0.75%	+1.47%	+0.01%	+13.33%
2018	USD	+0.41%	+0.42%	+0.58%	-0.93%	-3.24%	-0.12%	-1.28%	+0.79%	+3.02	-2.14%	+0.45%	-2.05%	-4.17%
2019	USD	-1.63%	+2.90%	+1.58%	+0.82%	-3.35%	+1.98%	+1.18%	+1.63%	-1.89%	-2.34%	-1.59%	+2.31%	+0.70%
2020	USD	-1.41%	-3.93%	-18.44%	+12.72%	+4.28%	-0.28%	+0.78%	+8.65%	+6.02%	+0.72%	+6.91%	+12.77%	+27.66%
2021	USD	-1.89%	+9.49%	+5.84%	+1.58%	+6.37%	+8.37%	-1.30%	+8.47%	+3.80%	+4.47%	+2.42%	-1.69%	+55.61%
2022	USD	-2.51%	+1.92%	+5.99%	-5.82%	-5.85%	-3.73%	+2.50%	+1.76%	-10.01%	-10.7%*			-24.7%*

\*According to internal estimates

*\*The Fund has appointed ACOLIN Fund Services AG, succursale Genève, 6 Cours de Rive, 1204 Geneva, Switzerland, as its Swiss Representative. NPB Neue Privat Bank AG, Limmatquai 1, 8024 Zürich, Switzerland is the Swiss Paying Agent. In Switzerland shares shall be distributed exclusively to qualified investors. The fund offering documents, articles of association and audited financial statements can be obtained free of charge from the Representative. The place of performance with respect to [shares distributed in or from Switzerland is the registered office of the Representative.*

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