

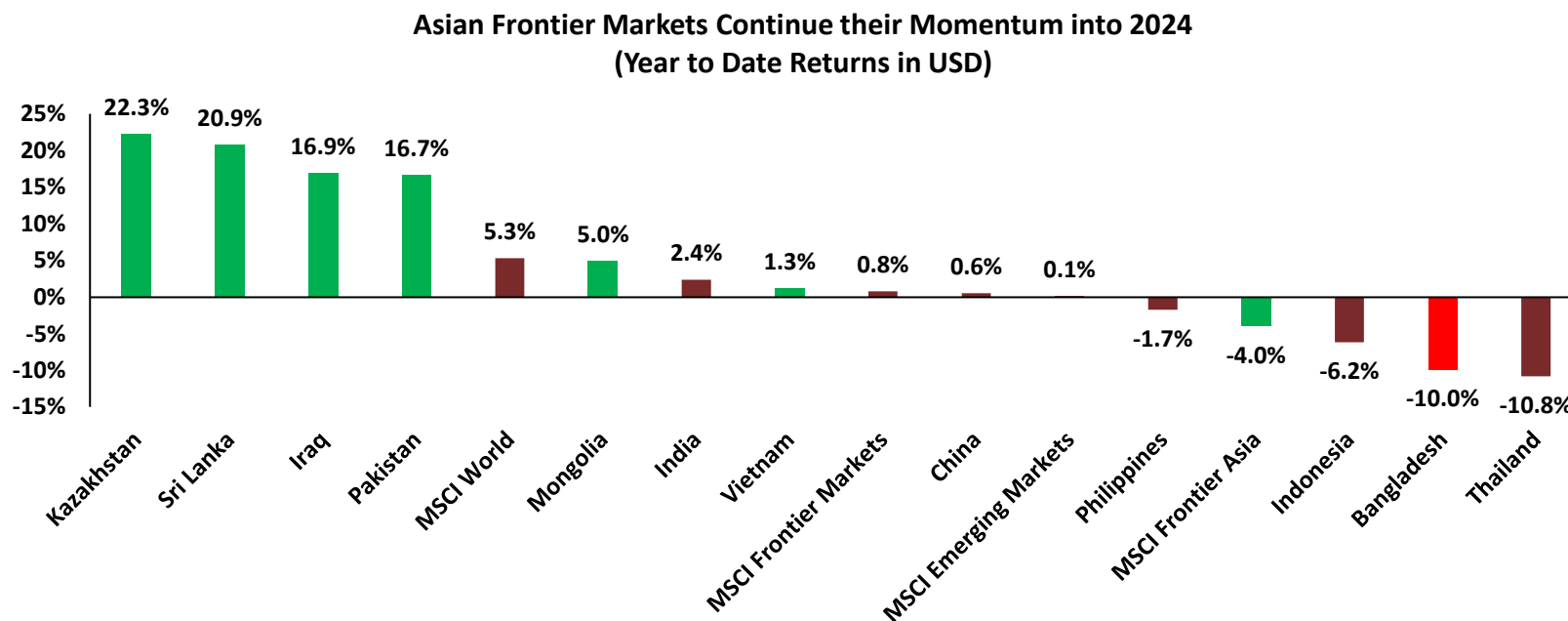


AFC Quarterly Webinar  
April 2024

# **AFC Quarterly Webinar – April 2024**

# AFC Asia Frontier Fund

# Asian Frontier Markets Continue to Outperform Peers into 2024

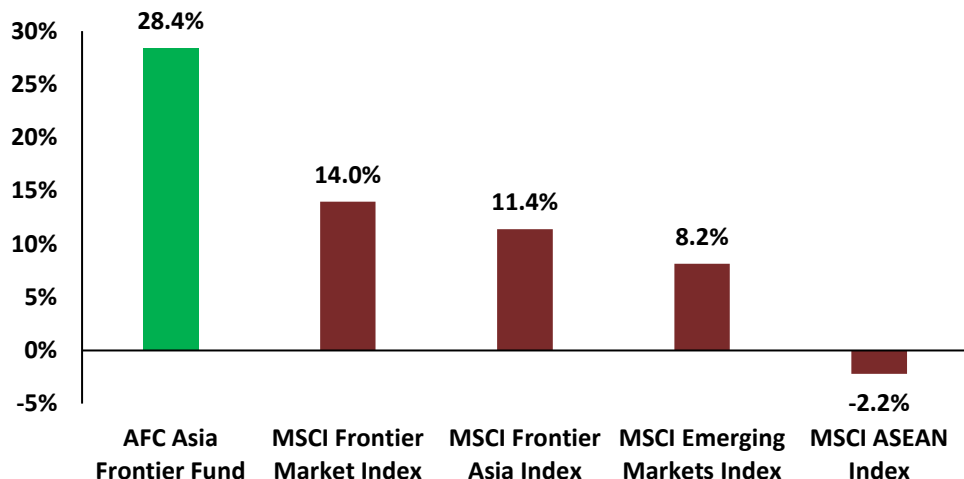


Source: Bloomberg, USD returns between 29<sup>th</sup> December 2023 – 23<sup>rd</sup> April 2024

- Kazakhstan, Sri Lanka, Iraq, and Pakistan among the top 10 performing markets globally in 2024.
- The continued rally in Asian frontier markets does not surprise us.

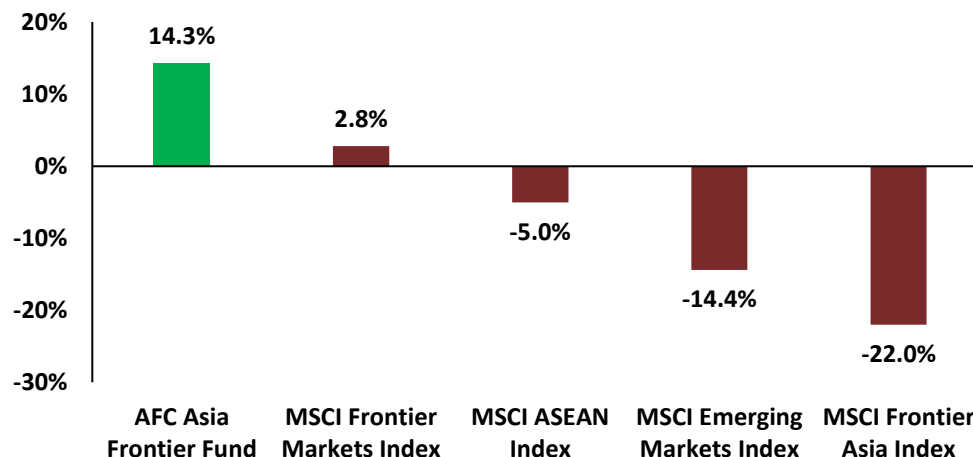
# AFC Asia Frontier Fund Outperforming Frontier and Emerging Markets

**AFC Asia Frontier Fund Has Outperformed Frontier and Emerging Markets in the Past Year (1 Year Total Returns in USD)**



Source: Bloomberg, total USD returns between 31<sup>st</sup> March 2023 – 29<sup>th</sup> March 2024

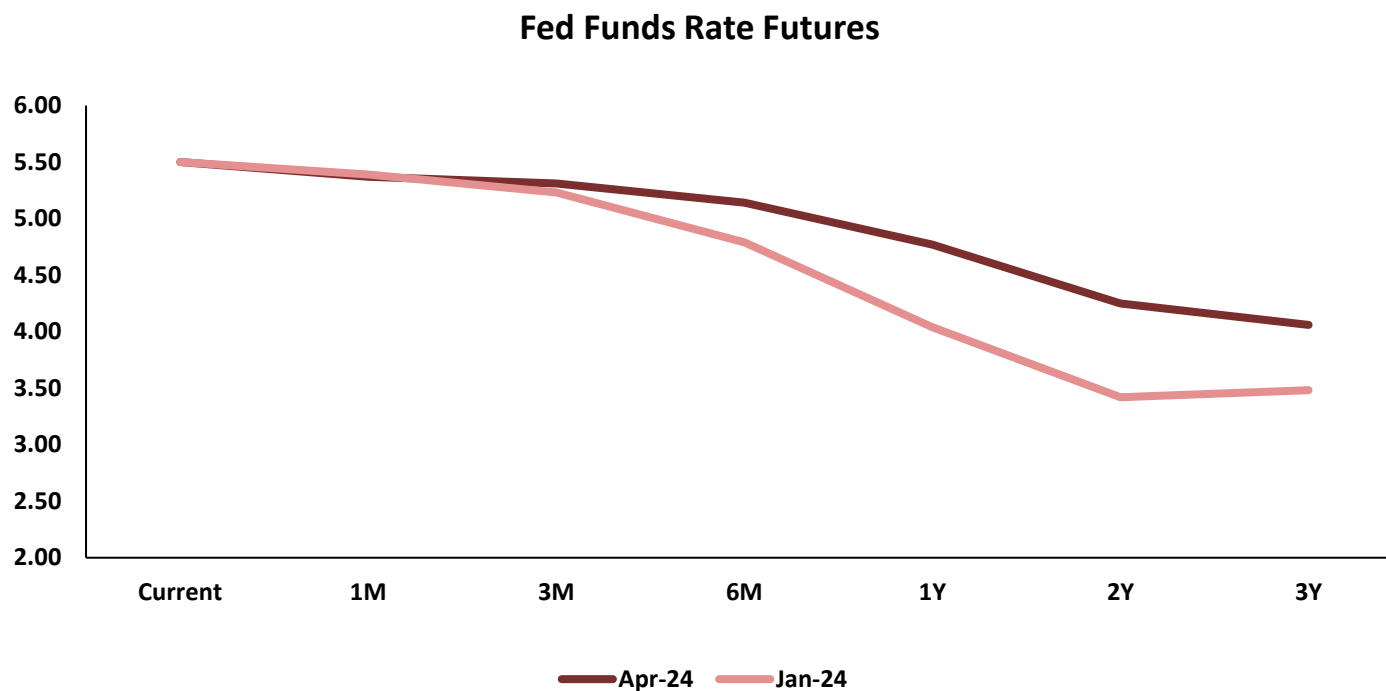
**AFC Asia Frontier Fund Also Outperforming Frontier and Emerging Markets Over 3 Years (Total Returns in USD)**



Source: Bloomberg, total USD returns between 31<sup>st</sup> March 2021 – 29<sup>th</sup> March 2024

- Broad based returns for the fund over the past year led by Iraq, Kazakhstan, Vietnam, Pakistan, Mongolia, Sri Lanka, Georgia, and Cambodia.
- AFC Asia Frontier Fund outperforming the region.

# Markets Re-ricing U.S. Fed Interest Rate Cuts – But Asian Frontier Central Banks Already Easing

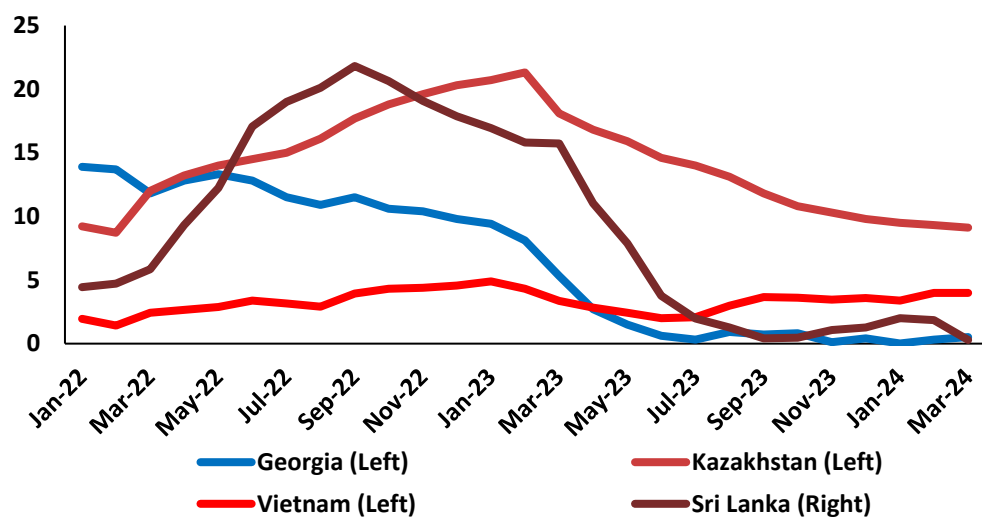


Source: Bloomberg

- Big picture is still interest rates easing by global central banks. Don't miss the forest for the trees.
- Asian frontier central banks began easing cycle in 2H23 because they were so aggressive.

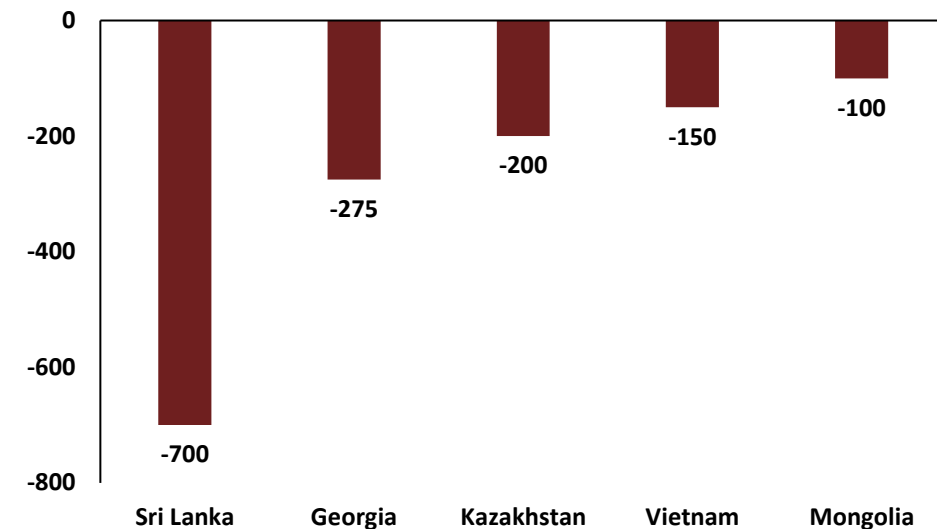
# Inflation and Monetary Policies Now In Favor of Asian Frontier Markets

**Inflation has Eased Significantly in Many Asian Frontier Countries (in %)**



Source: Bloomberg

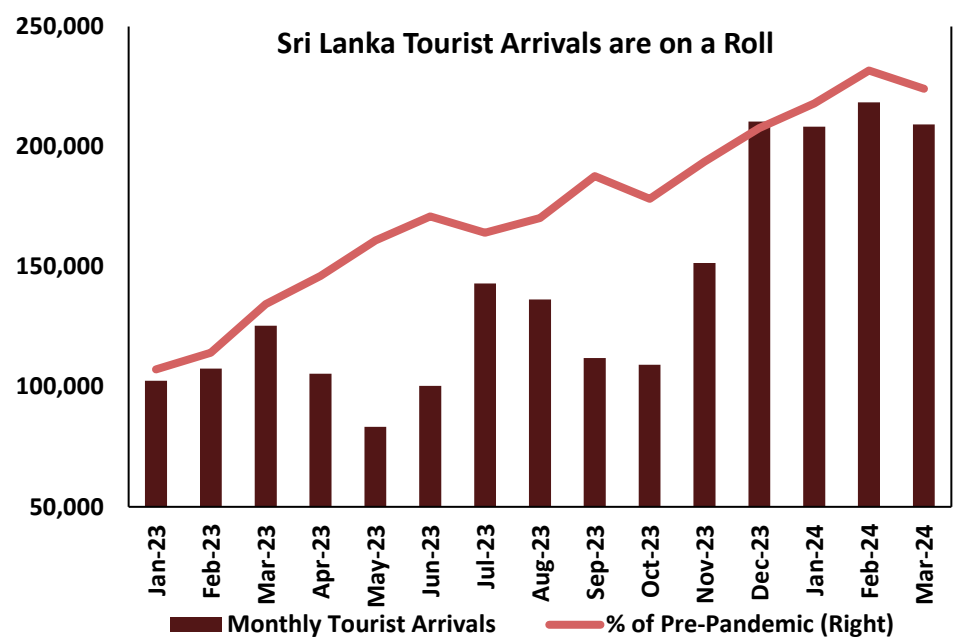
**Asian Frontier Central Banks are now Easing Monetary Policies as Inflation Cools (Cut in Benchmark Interest Rates in Basis Points in Past 12 Months)**



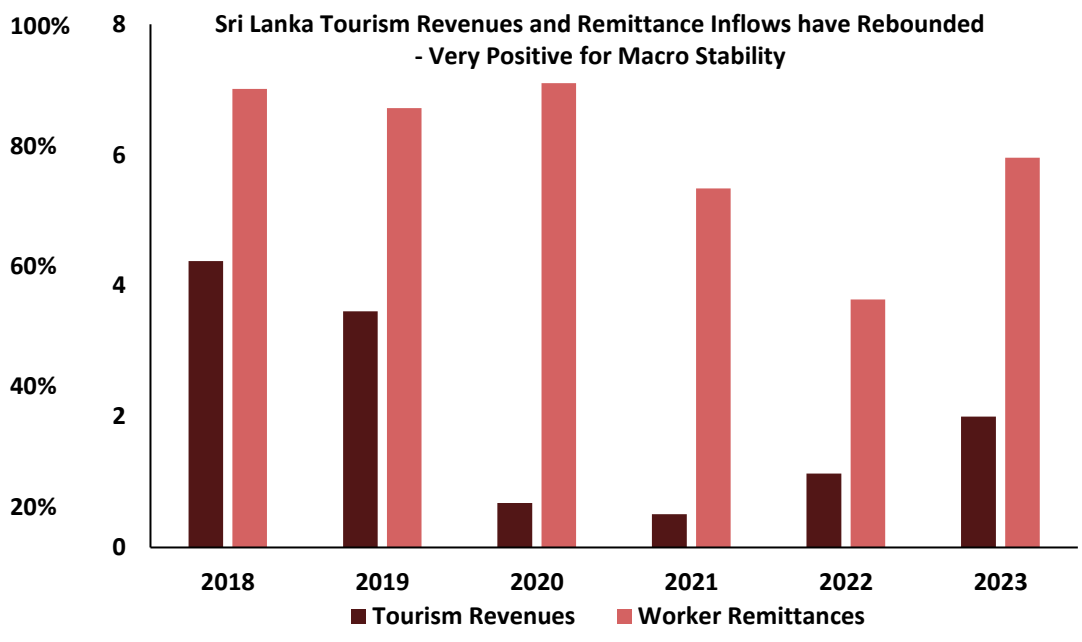
Source: Bloomberg

- Much improved macro-stability has given room for continued interest rate cuts.
- State Bank of Pakistan could possibly be the next Central Bank to reduce interest rates.
- Bangladesh, Pakistan, and Sri Lanka can handle higher oil prices – they are coming out of a crisis and not going into one.

# Sri Lanka Macro Recovery



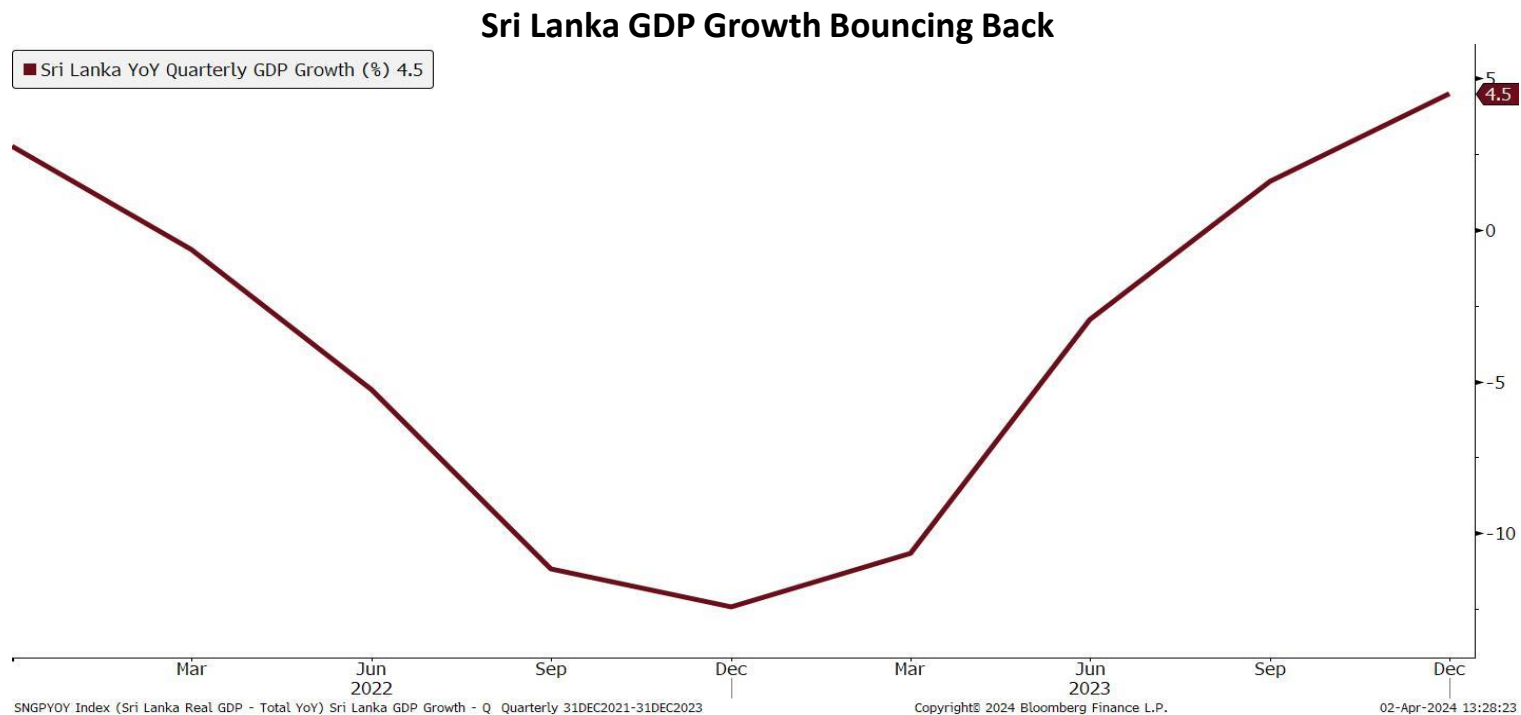
Source: Sri Lanka Tourism Development Authority



Source: Central Bank of Sri Lanka

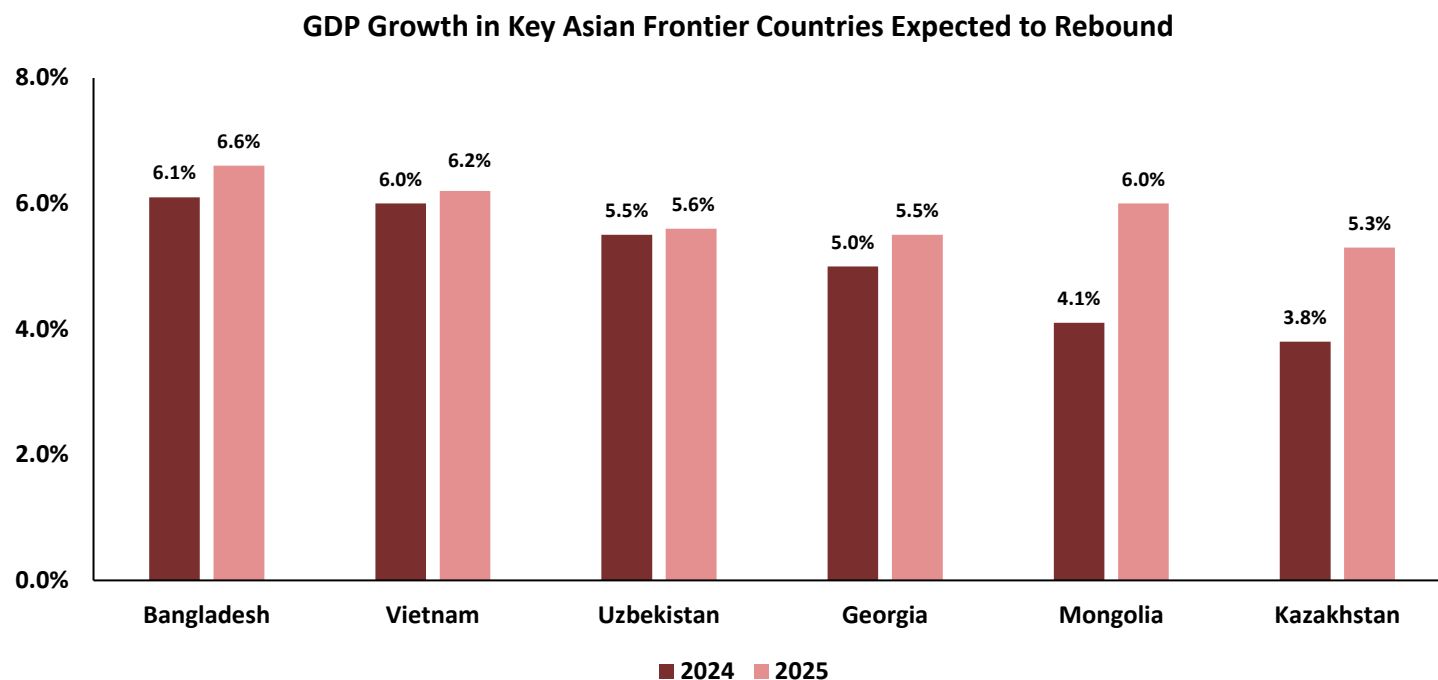
- Sri Lanka should be able to get back to pre-pandemic tourism numbers by end of 2024.
- Sentiment on the ground is improving as interest rates come off and economic growth returns.





Source: Bloomberg

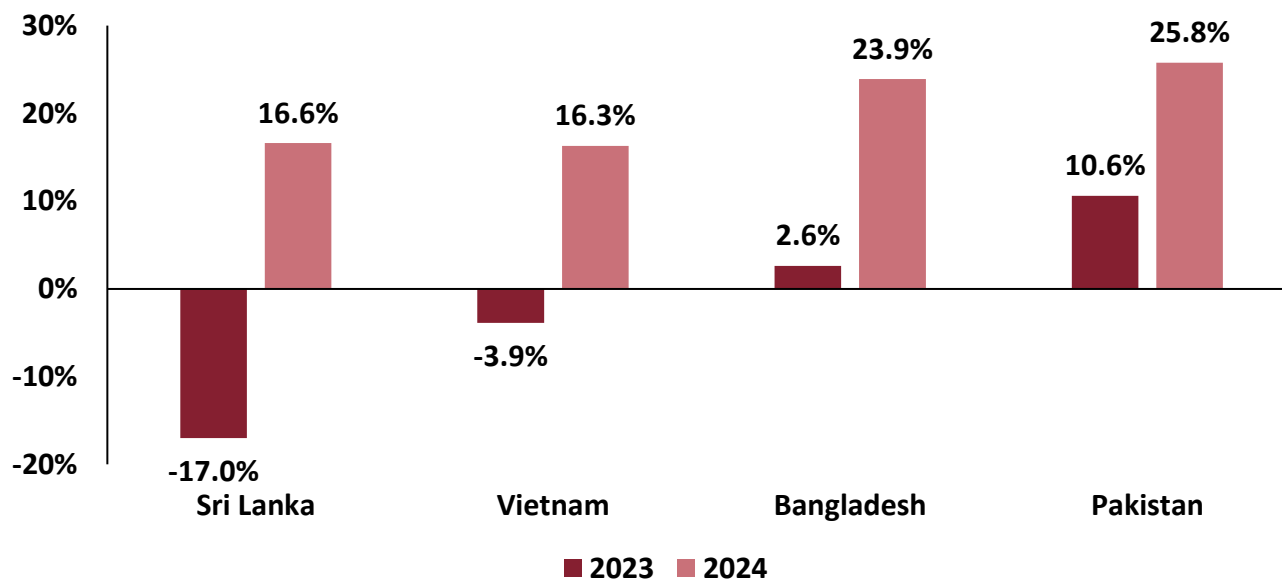
- Sri Lanka in a position to sustain economic growth via tourism and remittances which will also help foreign exchange reserves.
- Sri Lanka expected to have record harvest because of very good rainfalls – this will be positive for income levels.
- Strategic location of Port of Colombo shaping up nicely to make it a transportation hub.
- Sri Lanka is well leveraged to India's economic growth – similar to ASEAN and China in the 2000's.



*Source: Asian Development Bank, April 2024 Forecast*

- Economic growth rebounding across Asian frontier countries.
- Bangladesh, Mongolia, Vietnam, and Central Asia stands out for GDP growth.
- Multi-lateral agencies sounding more positive on economic outlook compared to 12 months ago.

## A Strong Earnings Recovery will Support the Ongoing Re-rating in Asian Frontier Markets

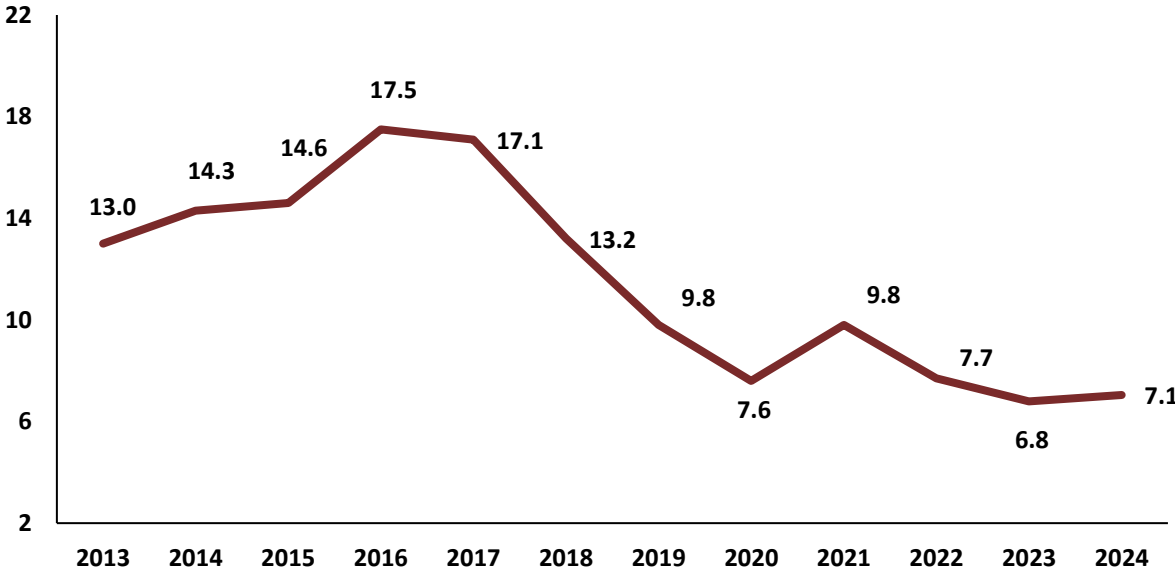


Source: CT CLSA Securities, EFG Hermes, IMS Securities, SSI Securities

- Earnings should rebound from a low base of 2022 and 2023.
- Bangladesh, Pakistan, Sri Lanka, and Vietnam should lead the earnings recovery in our universe.

# 2024 Outlook – Discounted Valuations

The AFC Asia Frontier Fund Trades at a Very Low P/E ratio Despite a Strong Performance



Source: Bloomberg

P/E Ratios	
Pakistan	4.3
AFC Asia Frontier Fund	7.1
Kazakhstan	9.4
Philippines	12.4
Sri Lanka	13.0
Vietnam	16.6
Indonesia	17.8
India	23.6

Source: Bloomberg

- Tailwinds still in place to continue re-rating valuations upwards
  - (1) Lower interest rates.
  - (2) Macro and earnings recovery.
- 2024 should see a continuation of the rally witnessed in 2023 (in Asian frontier markets).

# Halyk Bank – Attractive Valuations, Strong Growth, High Dividend Yield

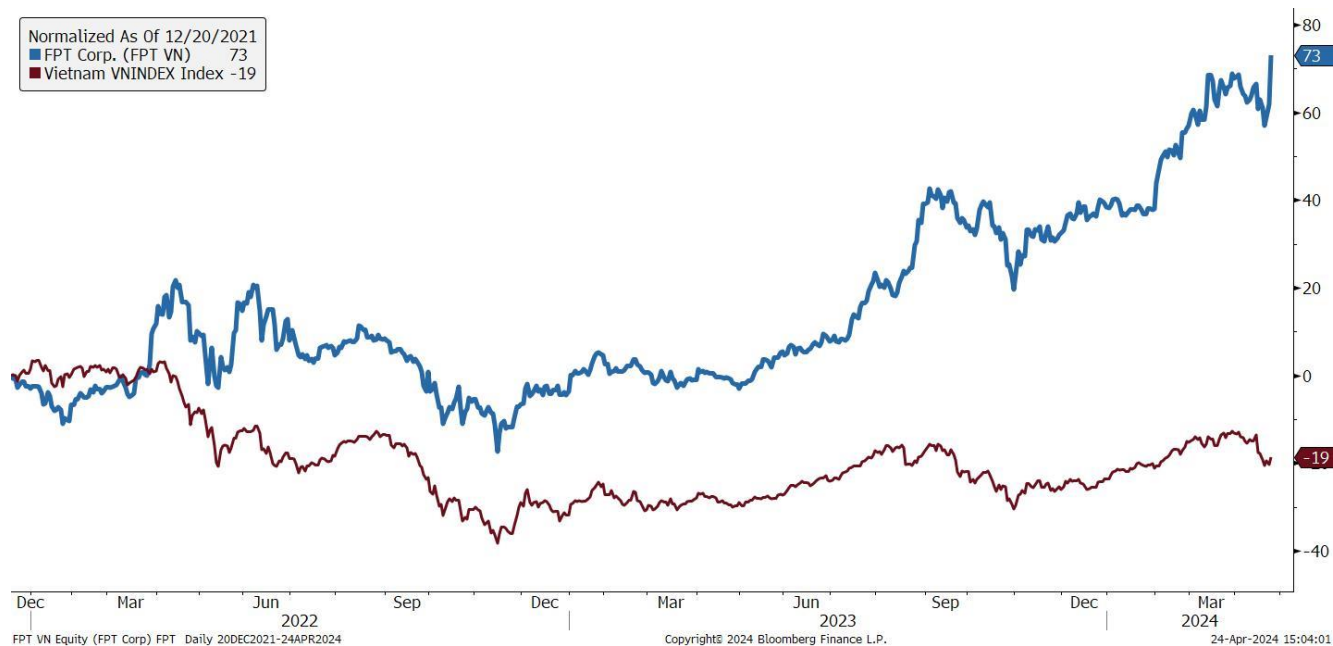
- Second biggest stock position in the fund.
- P/E ratio of 3.2x and dividend yield of 12.2%.
- 2023 net profits of USD 1.5 billion.
- Market cap of USD 5.2 billion.



Source: Bloomberg

# FPT Corp – Key Technology Play from Vietnam

- Largest position for the fund in Vietnam.
- Growing earnings by 20% for next few years.
- Signed deal with Nvidia to develop AI tools in Vietnam.



Source: Bloomberg

# Lucky Cement – Leveraged to Pakistan Economic Growth

- Largest and lowest cost cement producer in Pakistan.
- Provides exposure to other parts of the economy
  - JV with Kia Motors.
  - JV with Samsung.
  - Equity stake in ICI Pakistan.
  - Exposure to the power sector.
- P/E ratio of 6.5x



Source: Bloomberg

# Commercial Bank of Ceylon – Turnaround Story

- Largest position for the fund in Sri Lanka.
- Economic recovery in Sri Lanka will be positive for loan growth, cost of risk and RoEs.
- P/E ratio of 6.6x and P/B of 0.6x.



Source: Bloomberg



# Key Message – Remain Positive in 2024 and Beyond

## AFC Asia Frontier Fund Portfolio Fundamentals Well Placed to Continue Re-Rating

P/E	P/B	P/Cash Flow	Dividend Yield	Return on Equity	Debt/Equity ratio	Historical 3 Year Earnings CAGR
<b>7.1</b>	<b>1.3</b>	<b>8.9</b>	<b>2.7%</b>	<b>29.8%</b>	<b>0.6</b>	<b>28.4%</b>

Source: AFC Research, Bloomberg, P/E is trailing 12 months, as of 31<sup>st</sup> March 2024

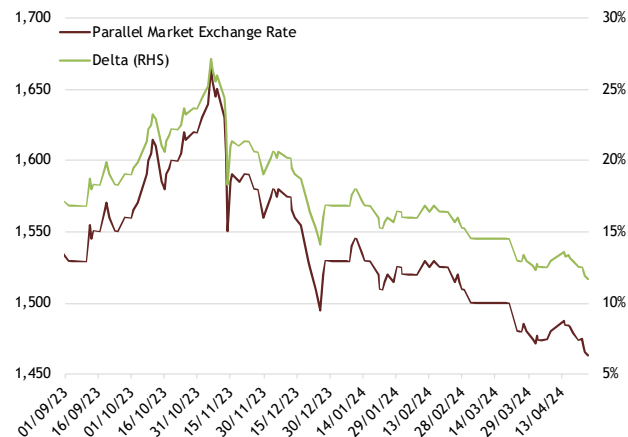
- Our call at the end of 2023 was for the rally in Asian frontier markets to continue – strong performance from the Fund led by Iraq, Kazakhstan, Pakistan, and Sri Lanka.
- Don't miss the forest for the trees with Fed noise – macro has turned the corner in our universe which is very positive for equities.
- Lower interest rates, macro and earnings recovery and discounted valuations should continue helping fund performance.
- Beyond 2024 – Asian frontier markets should continue doing well – they are now in a positive macro cycle.
- More positive on Sri Lanka with a 3-5 year view now.

# AFC Iraq Fund

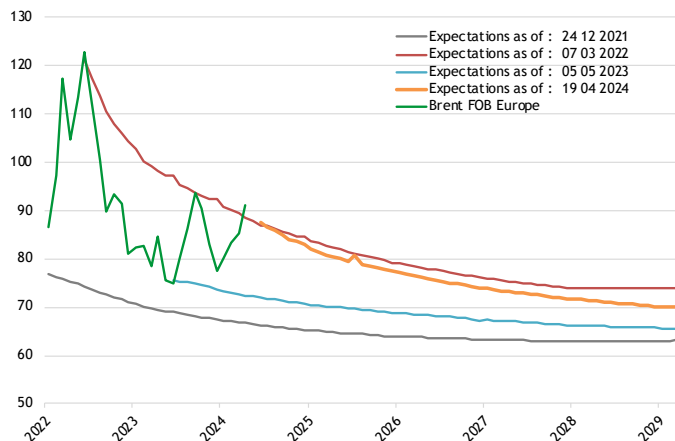
## Markets Continue to Look Through Tensions

- Fears of a widening of the Middle East conflict increased significantly in the month.
- The Iraqi stock and currency markets, as well as oil markets, are discounting a very different outlook to that implied by these fears.
- The RSISX USD Index is up 30% from pre-conflict, the parallel market price of USD after peaking in early Nov is down 12% vs the IQD.
- Oil markets while elevated continue to reflect a contained conflict.

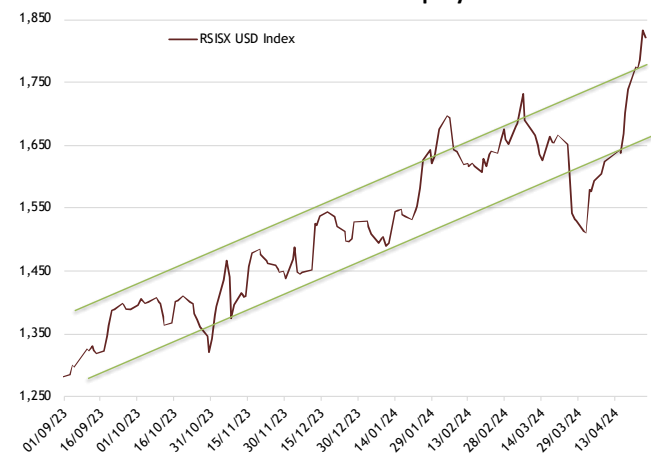
**IQD vs USD: Parallel Exchange Rate and its Premium over Official Rate (Delta)**



**Market Expectations for Future Oil Prices - As measured by Brent Futures Contracts (USD per barrel)**



**Rabee Securities U.S. Dollar Equity Index**



Sources: Central Bank of Iraq, Rabee Securities, Iraq Stock Exchange, Iraqqahbar, data as of 25/04/2024. US Energy Information Administration, Wall Street Journal, data as of 19/04/2024

## Top Banks End the year with a Bang

- The catalyst for this development was the Central Bank of Iraq’s (CBI) new procedural requirements for its provisioning of U.S. dollars for cross-border transfers in mid-November 2022. Part of an ongoing process of encouraging the economy’s increased adoption of banking
- Created the economic incentives for informal companies to transfer to formality and to access the banking sector for the first time
- Disproportionally benefited the top-quality banks, who experienced fast growth in 2023
- *Index up 20.3% for the month, and 19.2% for the year, while the AFC Iraq Fund is estimated to be up 16.1% for month and 21.4% for the year. As of 25<sup>th</sup> April 2024.*

	Net Profit (IQD bn)			Equity (IQD bn)			ROAE
	2022	2023	y-y %	2022	2023	y-y %	2023
Bank of Baghdad (BBOB)	53	156	193%	350	474	35%	38%
Commercial Bank of Iraq (BCOI)	12	15	29%	326	318	-3%	5%
Mansour Bank (BMNS)	13	40	213%	283	312	10%	13%
National Bank of Iraq (BNOI)	28	190	590%	328	500	52%	46%

(Source: Rabee Securities, AFC Research, data as of Q4/2023)

# AFC Uzbekistan Fund



- Uzbek economy hits a bump in the road after a 5.5% budget deficit in 2023, breaching 3% target.
- Expected to decrease to 4.2% in 2024, and 3% by 2026
  - Social programs largely to blame as market-wide subsidies in gas, electricity, and water are rolled back.
- World Bank decreased GDP growth forecast for 2024 to 5.3% from 5.5%.
- Country is facing export competition in textiles (USD 3.1bln) and decreasing raw materials exports as domestic consumption surges.

- Uzbekistan pivoted to China in January paving the way for billions of USD in FDI.
- Uzbekistan is balancing Russia, China, Middle East, and the West and is leaning heavily into China.
- Infrastructure, mining, pharmaceuticals, petrochemicals, uranium, automobiles

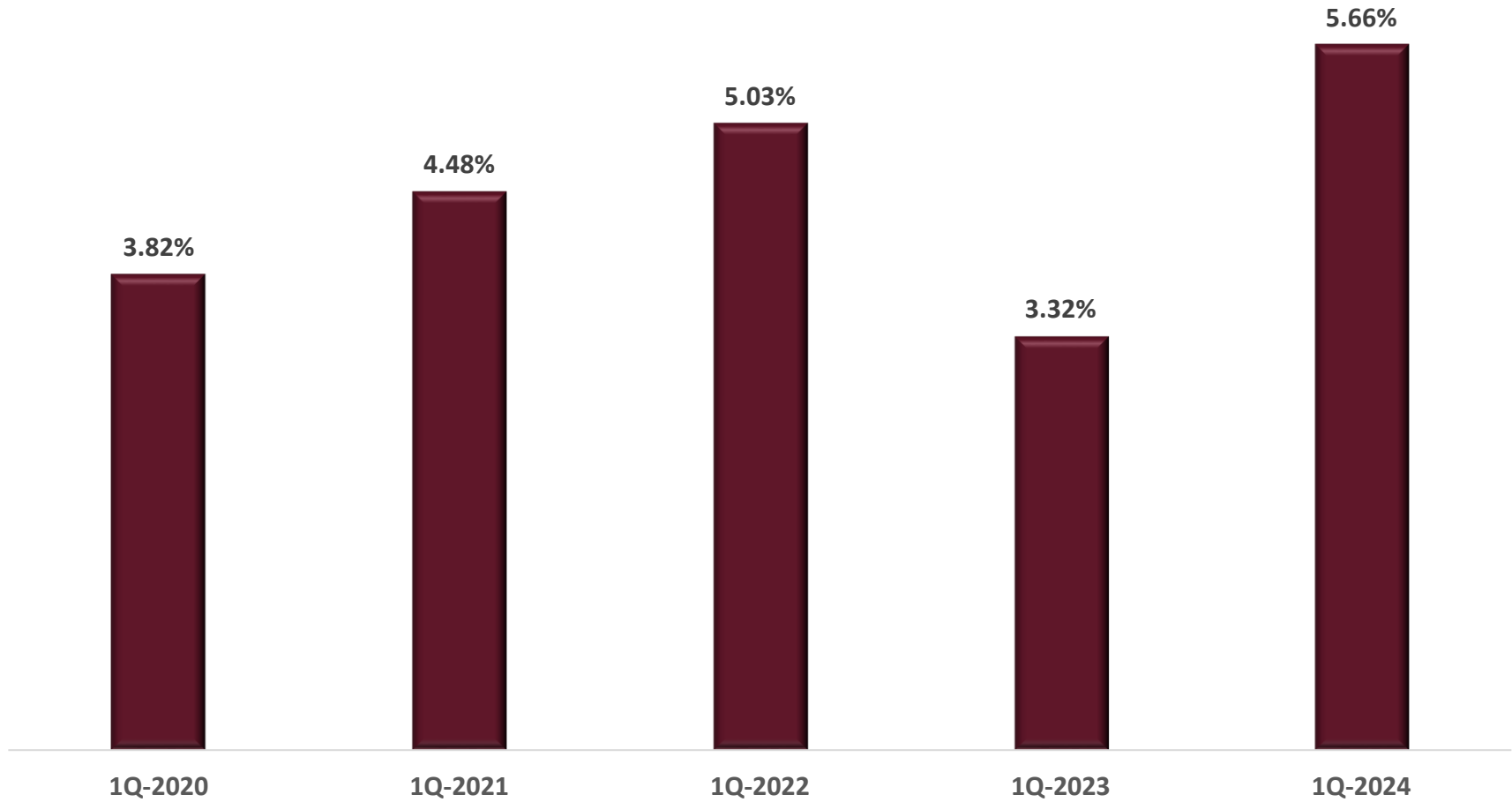


- Proposed regulations include developing a USD corporate bond market.
- Permitting ETF's & REITS.
- Bank of Georgia will likely be custodial backbone of this new infrastructure: + & - as key capital markets investors are Russians
- 2023 corporate earnings are strong.
- Financial Services: EPS +16%, BV +17%, div. yield 14.4%.
- Cement: EPS +57%, BV +18%, P/E 2.33x, P/B 0.36x
  - 4.2 m tpy capacity and in discussion to lease another plant with 1m tpy. Preparing for an industry-wide rollup?



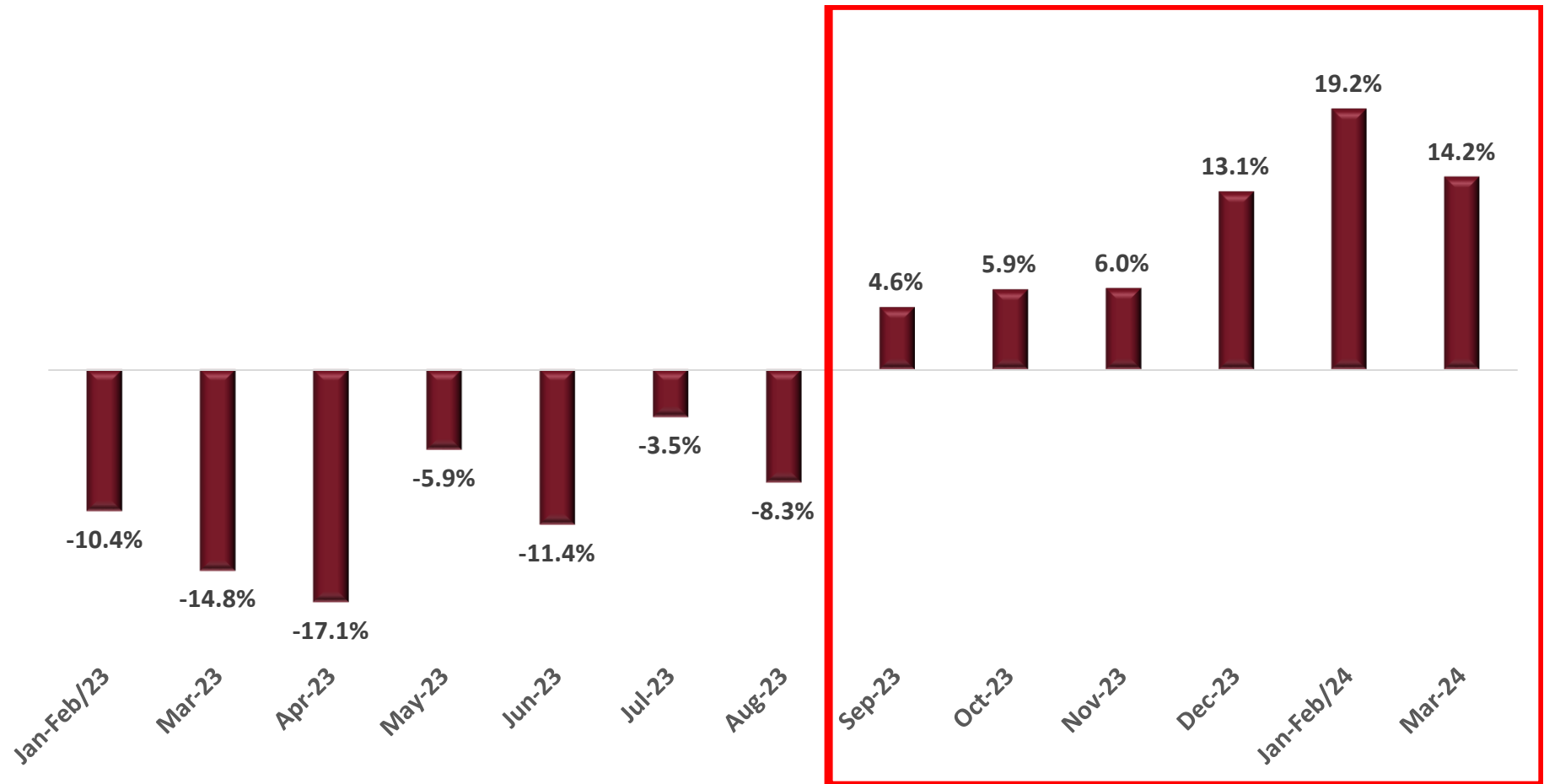
# AFC Vietnam Fund

### 1Q GDP Growth hits the high in 5 years



Source: GSO, AFC Research

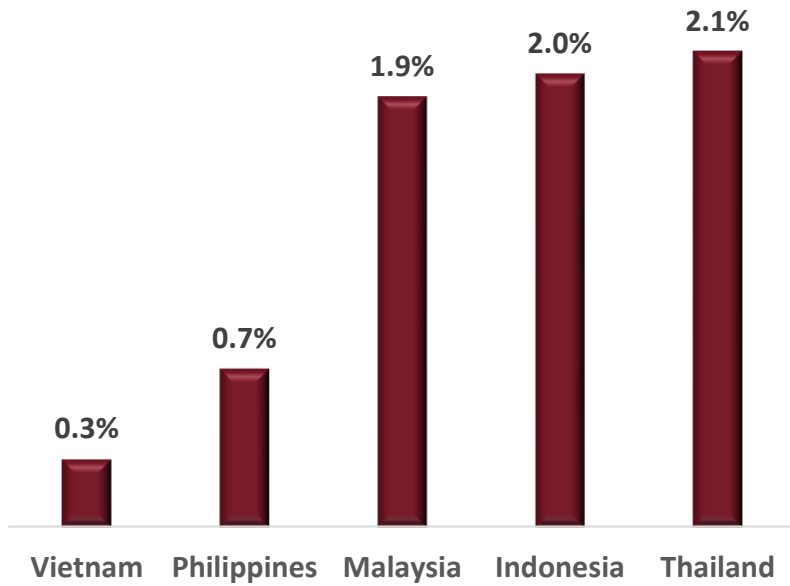
# Exports Keep Recovering



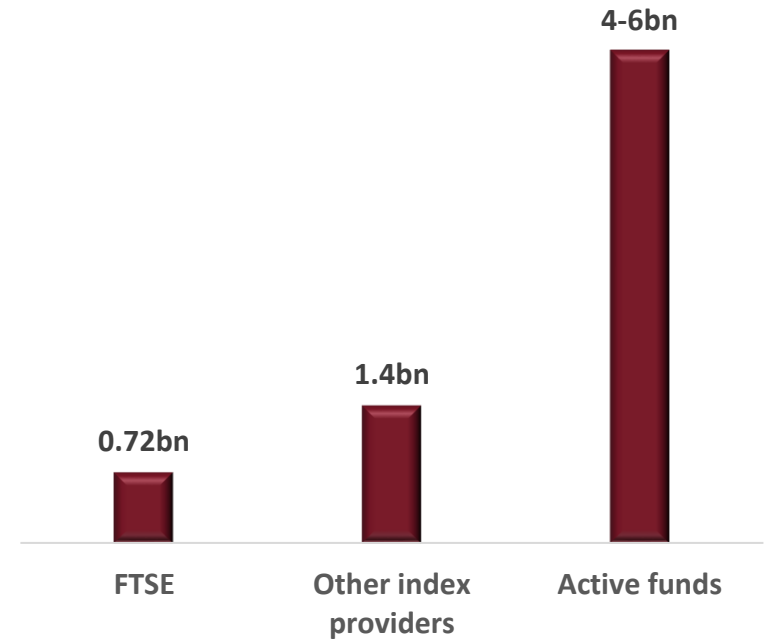
Source: GSO, AFC Research

# Emerging Markets Upgrade Potential

## Expected Vietnam weighting in EM Index



## Expected passive and active inflow USD bn



Prefunding regulation will be approved in 2024 and upgrading can happen in 2025 expectedly

# Buying Opportunity During Healthy Correction



Source: Bloomberg

## Why Asia Frontier Capital?

**For further information on how to subscribe to our funds please contact our Marketing Director Peter de Vries at [pdv@asiafrontiercapital.com](mailto:pdv@asiafrontiercapital.com)**

- The only investment firm which can offer pure listed equity exposure to Asian frontier markets.
- Focussed approach only on Asian frontier markets – not getting distracted by potential opportunities in other regional markets.
- Proven track record across all funds and all four funds have outperformed their benchmarks.
- No turnover in investment team has led to large and deep knowledge pool on Asian frontier companies and economies as well as on the ground connections.
- Conduct on the ground research and have AFC investment staff on the ground in Iraq, Uzbekistan, and Vietnam.
- Within the global frontier markets universe, Asian frontier markets offer the most attractive growth rates, demographics as well as liquidity.
- Structural shift of supply chains is expected to benefit Asian frontier markets more because of their close proximity to Asian supply links, free trade agreements and large young workforce.
- Benchmark agnostic approach which gives importance to on the ground research.

## Recent Media Appearances

[27<sup>th</sup> March 2024 - RTHK Money Talk - Ruchir Desai, Co-Fund Manager of the AFC Asia Frontier Fund, Discusses the Key Drivers for the Continued Strong Performance by Asian Frontier Markets in a Discussion with Nitin Daldas](#)

[9<sup>th</sup> February 2024 - Bloomberg TV: Asia Frontier Capital's Desai on Pakistan Election](#)

[18<sup>th</sup> January 2024 - Peter Lewis' Money Talk: Ruchir Desai, Co-Fund Manager of the AFC Asia Frontier Fund discusses why Less Hawkish Central Banks, Strong Earnings Recovery, and Discounted Valuations will continue to be Positive for Asian Frontier Markets in 2024 \(from 36:20\)](#)

[12<sup>th</sup> December 2023 - Bloomberg TV: Asia Frontier Capital's Desai on Vietnam Picks](#)

[20<sup>th</sup> September 2023 - Peter Lewis' Money Talk: Ruchir Desai, Co-Fund Manager of the AFC Asia Frontier Fund discusses the positive impact of closer U.S. – Vietnam relations as both countries upgrade their relationship to a Comprehensive Strategic Partnership \(from 37:22\)](#)

[22<sup>nd</sup> June 2023 - Bloomberg TV: Asia Frontier Capital's Desai on Frontier Markets](#)

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