31st May 2020

AFC VIETNAM FUND UPDATE

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

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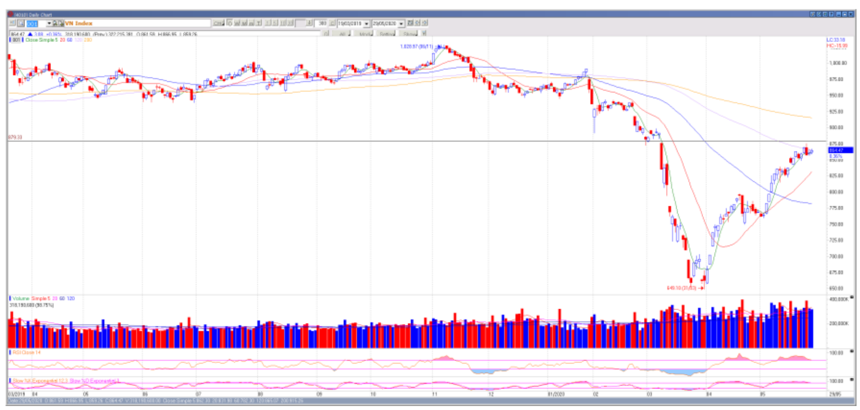
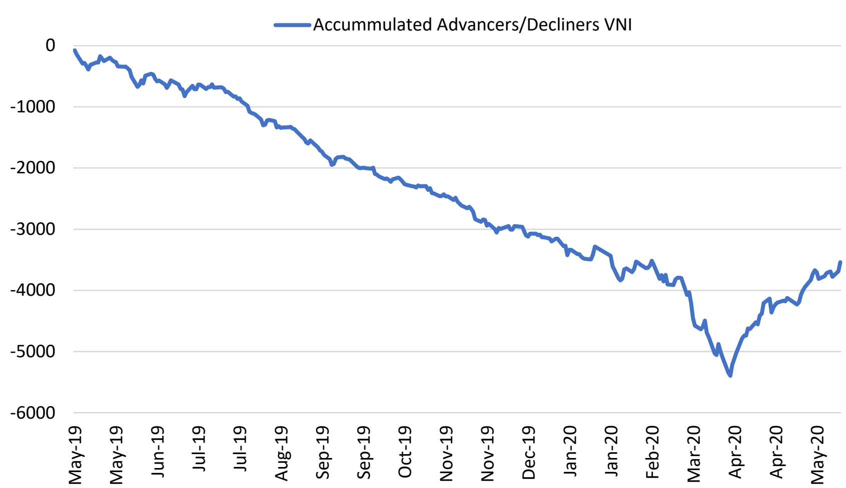
The stock market's recovery continued in May, though momentum slowed down towards month's end. Just two months ago people were scared that the sky was falling. This of course was followed by the strongest gains in years for Vietnam and the next likely step is for a consolidation of recent gains before the uptrend will continue. We therefore used interest from local investors in our smallest companies to either fully or partially exit and we are looking to re-deploy money to larger names with attractive valuations during the next correction. Although foreign net-selling continued, most indices advanced strongly with blue chips up the most. The indices in Ho Chi Minh City and Hanoi gained 12.4% and 2.8%. Despite increasing the cash holding during the month, our NAV was also able to gain 4.6% (NAV USD 1,629), according to internal calculations.

Market Developments

May saw another month of recovery, though it was less spectacular than April's as momentum began topping out during the month. This is actually no surprise as the VN-Index has risen by 33% since the bottom on 31st March, and the rally was mostly broad based with decent market breadth. It now needs some time to digest those gains before we get confirmation that a new bull market has started. It is good to see that foreign net selling mostly disappeared, while local retail investors, many of them new to the market, continued to purchase stocks across the board.



(VN-Index from March 2019 to May 2020; source: Viet Capital Securities)



(VN-Index market breadth; source: Bloomberg, AFC Research)

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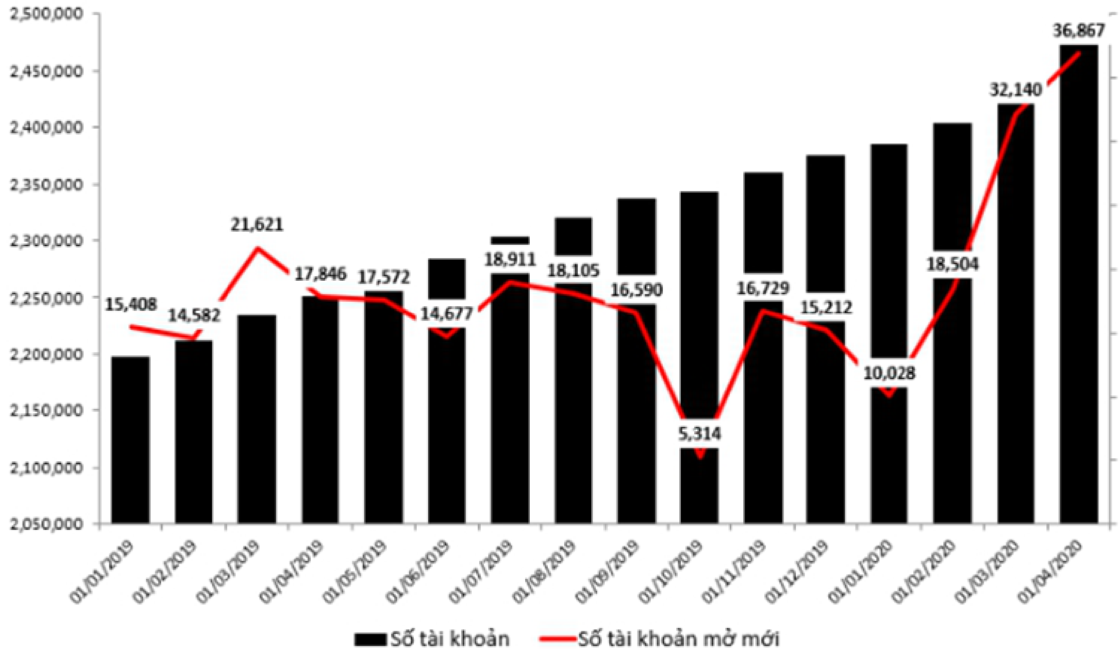
New and total number of brokerage accounts in Vietnam



(black = total number of trading accounts (LHS), red = monthly new accounts; source: VietStocks)

It continues to be very difficult for us as fund managers to find a single index which really represents "the market" in Vietnam. Not only that, there are already two separate and quite different stock markets—one in Ho Chi Minh City and Hanoi—and a third market, UPCOM, which hosts many interesting and newly listed companies.

Number of listed stocks by market cap

	<200	200-1000	>1000	Total
HSX	328	37	23	**388**
HNX	357	7	1	**365**
UPCOM	867	22	5	**894**
Total	**1552**	**66**	**29**	**1,647**

Percentage of listed stocks by market cap in mln USD

	<200	200-1000	>1000	Total
HSX	84.5%	9.5%	5.9%	**100.0%**
HNX	97.8%	1.9%	0.3%	**100.0%**
UPCOM	97.0%	2.5%	0.6%	**100.0%**
Total	**94.2%**	**4.0%**	**1.8%**	**100.0%**

(Source: Viet Capital Securities)

We often wrote about the problematic concentration on banks, real estate and Vingroup stocks in the mostly followed HSX-Index, not to speak of the unavailability of some stocks to foreign investors.

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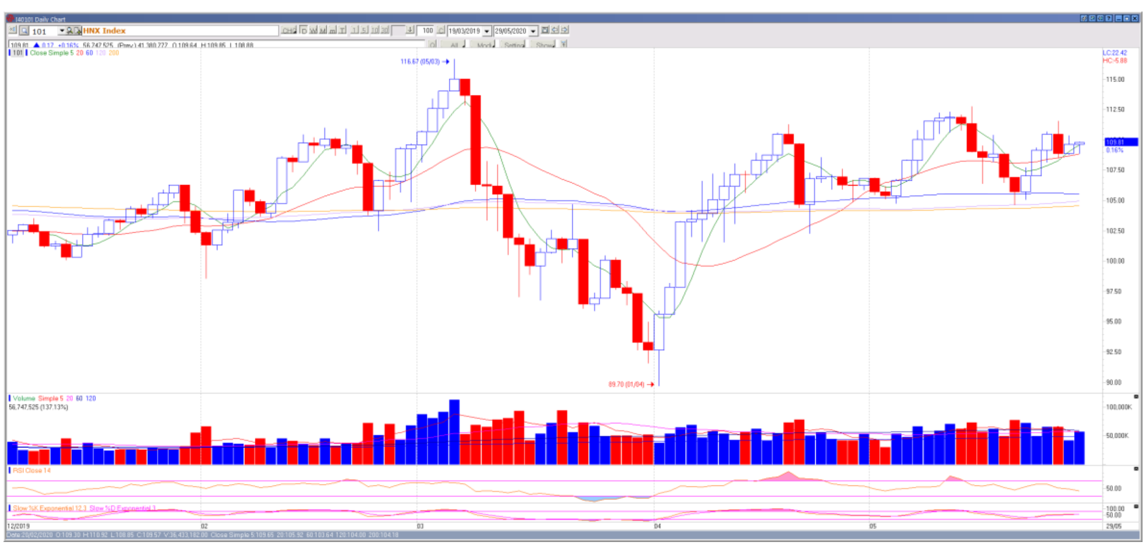
So, what are fund management companies doing in this respect? Besides a comparison to the HSX-Index, some are showing either indices like the FT-Vietnam which takes into account those issues for foreigners, or comparing them to ETF's which are having a difficult time tracking a Vietnamese stock market index, because they are facing a lot of restrictions and also invest in companies which are listed in other countries but generating part of their revenues in Vietnam.

(Source: Bloomberg, AFC)

While this certainly looks good, we still prefer to show the widely used local indices with all of the flaws they have and instead explain certain moves which might not be clear to outsiders, as it has for example been the case over the past few weeks for the Hanoi Index. With two heavily weighted banks (one not available to foreigners, and the other a target of immense speculation from local retail investors), on several occasions the index moved in opposite directions relative to the index in Ho Chi Minh City by a daily magnitude of 1%-2%, which is ridiculous!



(HNX-Index form March 2019 to May 2020; source: Viet Capital Securities)

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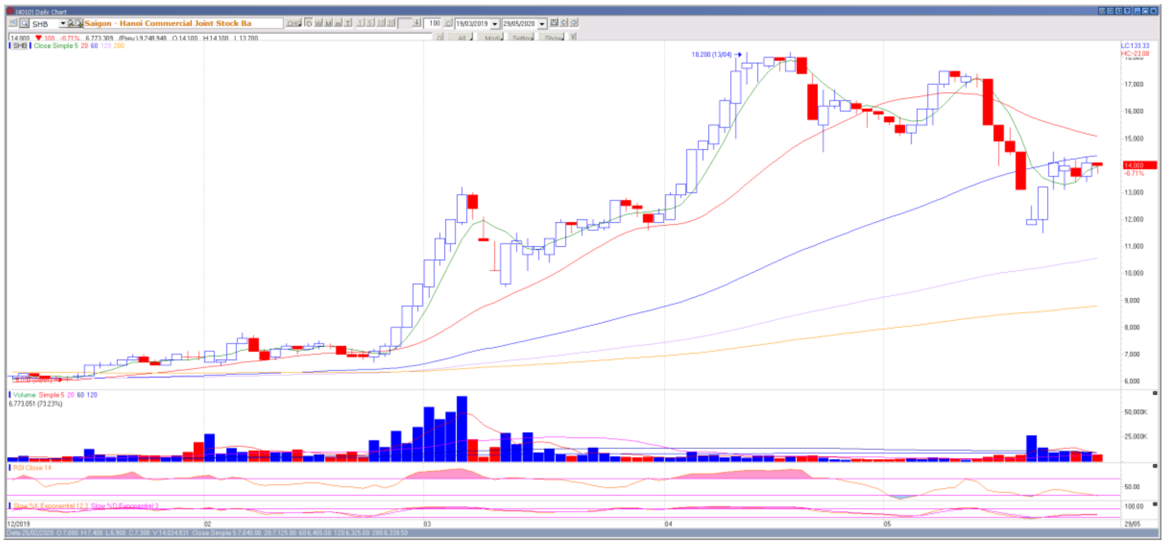

(Saigon-Hanoi Commercial Bank form March 2019 to May 2020; source: Viet Capital Securities)

For those reasons, we do not want to and will not get involved in playing index-games, instead continuing to focus on undervalued investments with reasonable risk profiles to capture the outstanding economic situation Vietnam finds itself in over the long term, despite or maybe now even more so, because of COVID-19.

Vietnam's new normal economy

Finding yourself sitting and investing in one of the safest (almost) COVID-19-free country, is one-of-a-kind luck nowadays. Wherever our readers may currently be stationed, at the moment it is probably impossible to find more personal freedom than in the "poor" and communist country, Vietnam – something worth considering during times when consumer behavior is influenced by fears from governments all over the world which are struggling to find the right balance between health and the economy.

Competitions have started again, like this 18-stage bicycle race through several provinces in Vietnam

(5th stage of HCM City Cycling Cup finishing in Danang; source: AFC)

It has already been 5 weeks since most restrictions were lifted, and besides some infections in quarantines from repatriated overseas Vietnamese no community infection has been seen in 43 days! This tremendous accomplishment has put Vietnam into a situation where all businesses are working except for discotheques and karaoke bars. But now the main issue is if and how to open up the borders when it is almost certain Vietnam will get new infections by allowing tourists into the country. With pressures arising in Europe for the upcoming holiday season, Vietnam is also discussing different ways to restart the tourism industry. “Bubble tourism” in a way discussed now by New Zealand and Australia is the most likely outcome in the short term, with countries showing a low infection rate in North and South East Asia possibly being approached first. There are ongoing discussions of an Indo-Chinese travel bubble and the government is also preparing to open up the country for international flights in July. While in theory all hotels, restaurants and tourist attractions are allowed to be open, we still see a larger portion, especially those catering to higher end tourists, remaining closed, simply because there are no foreign tourists. Vietnam is starting its own domestic program to attract Vietnamese to the local market, but the hotels which are open are facing massive problems as they still operate on extremely low occupancy rates despite lowering prices 50%-75% to lure less wealthy Vietnamese. With very few tourists around, this is certainly the best time to visit Vietnam (whenever possible again), but on the other hand it is a disaster for the industry, as is the case globally. According to a recent poll in China, nearly half of surveyed Chinese travelers said they plan to travel overseas during the remainder of 2020 if the pandemic is contained, while 45 percent of these said Vietnam would be on their travel list. So, hopefully the region does not lose more time in finalizing a strategy on how to open. With new daily infections ranging from 0 to 100 for weeks now in countries like Australia, New Zealand, Hong Kong, South Korea, Vietnam, Thailand, Taiwan, China and Japan, every day their borders remain closed lead to unnecessary further deterioration of the tourism industry, which in the case of Vietnam accounted for around 12% of GDP in 2019.

As we already mentioned in the previous report, particular undervalued stocks may pay extraordinarily high dividends to investors such as DXP, ABI or TCL. One of our top 10 positions, Tan Cang Logistic JSC (TCL) announced a dividend of VND 7,000 per share for the financial year 2019, which equates to a dividend yield of 31%! We attended the company’s AGM on 22nd May, when TCL also mentioned that it is planning to pay a dividend of at least VND 2,500 per share for financial year 2020 which is equivalent to a yield of 11%. The board of directors also mentioned that the company is operating at 100% capacity and that they are confident to reach their 2020 targets. Despite recent strong gains, the company is trading at only 8.4x earnings. During the current period, with so many uncertainties, we continue to focus on companies with strong cash flows and balance sheets which have low debt/equity ratios and high dividend yields, rather than investing in debt-laden and expensive index stocks. These attractively valued companies should be much better positioned to benefit and grow after the COVID-19 pandemic has disappeared. Most importantly for the first time in years we are starting to see growing interest in undervalued companies from local investors.

(Tan Cang Logistics and Stevedoring from Dec 2009 to May 2020; source: Viet Capital Securities)

COVID-19 motivates companies to change

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April through May is the main season for Annual General Meetings (AGM) for most listed companies in Vietnam. However, COVID-19 forced some of them to delay their AGMs or change the method to organize them. On 23rd May we joined the AGM of Loc Troi Group (LTG), which is a rice producer and also the largest pesticide company in Vietnam, with around 40% market share. It is an agricultural company which is also affected by COVID-19 and for the first time they allowed investors to join the AGM online. According to the Chairman and the new CEO, Loc Troi Group already started the group restructuring plan before COVID-19, but the pandemic accelerated this process of converting the company from a mere pesticide and rice producer company into an "agriculture service provider". The new CEO commented that the key value of Loc Troi Group is its knowledge in agriculture and its close relationship with farmers. From a single pesticide provider, Loc Troi Group will become an integrated agricultural service provider, including seeds, pesticides, agriculture consulting services, logistics, agriculture big data and even financing services to farmers. In order to prove their strategy, the chairman said that Loc Troi Group is the first volunteer in the agriculture industry in Vietnam to provide rice origin tracing barcodes. LTG will provide high quality rice to the world, especially developed for markets such as the US and Europe. According to the chairman, rice orders from Europe are growing strongly after the company proved that it can control rice quality and its origin. They will reduce exports of low quality and cheap rice through auctions and focus on selling its own high-quality rice brand to premium markets, such as Europe and USA. During the AGM, Loc Troi Group also announced and introduced a new independent Director, Mr. Philipp Rösler, the former Vice Chancellor of Germany, who was born in the province of Ba Xuyên (https://e.vnexpress.net/news/business/companies/former-german-vice-chancellor-lands-another-vietnam-assignment-4104450.html). The Board of Directors stated that with the support and consultancy of Mr. Rösler and the recently approved trade agreement with Europe (EVFTA) Loc Troi Group can exploit this market more aggressively. Though, some investors expressed skepticism about the company's transformation strategy and asked if the company is still confident that it will be able to meet its financial targets for this financial year. The chairman replied that "It is difficult to issue any forecasts during the COVID-19 pandemic and hence the uncertain business environment, but the current strong rice prices will definitely help to reach financial targets". According to *Business Insider*, rough rice futures prices jumped by more than 25% this year. It is too early to say if the company will be successful in its restructuring effort, but we can see that COVID-19 has really motivated it to change and improve.

Rough rice future contract

(Source: Finviz)

We totally agree with many recent media reports that Vietnam is certainly suffering from the current crisis, but it is doing much better on a relative basis, and more importantly, it will rebound stronger than many other countries in the region.

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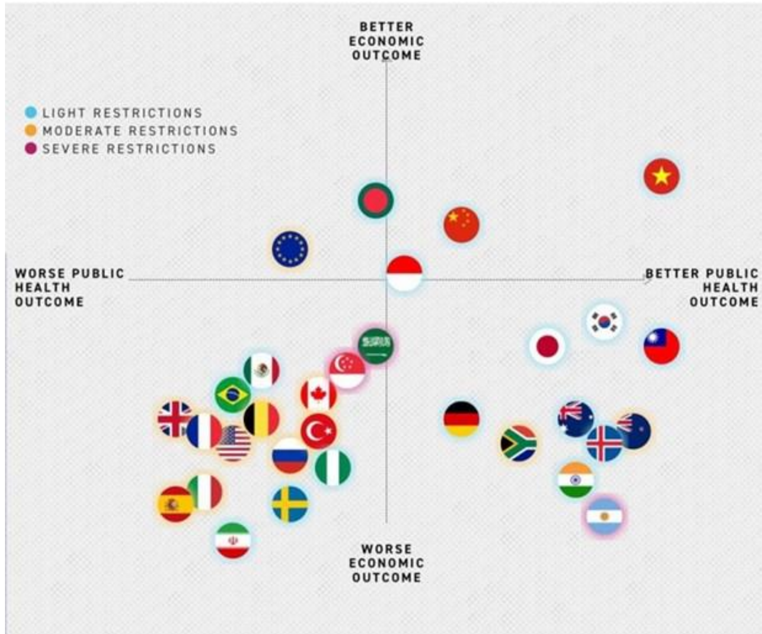

(Source: Politico)

Vietnam's current handling of the COVID-19 crisis gives it an additional boost for potential longer-term outperformance in comparison to its regional peers, attracting manufacturing investments not only from China, but also from e.g. Thailand.

THỜI ĐẠI
VIETNAM TIMES
The Vietnam Union of Friendship Organizations

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Vietnam labor market warm up as coronavirus recedes

12:04 | 23/05/2020

Vietnam labor demand is rising as companies resume activities after a long hiatus caused by the coronavirus pandemic.

- Vietnam industries rise the demand for employees
- New policy: Vietnamese labor to S.Korea asked to provide a guarantee of $4,252
- Labor ministry wants foreign experts to enter Vietnam

LG Display Hai Phong has recently advertised for 5,000 manufacturing workers and 1,000 technicians as part of its plans to expand production after the pandemic and meet orders from foreign buyers. The company is willing to hire and train inexperienced people.

Samsung, without mentioning specific figures, said it is hiring a "large" number of skilled workers in a number of areas including machinery, electronics and information technology. It too plans to expand.

Vu Quang Thanh, deputy director of the Hanoi Centre of Employee Service (HCES), said recruitment demand in some sectors such as technology is increasing by 40-50 percent.

Companies are lowering their requirements to quickly revive their business after the coronavirus losses, he said.

Nguyen Hoang Thanh Chuong, deputy director of recruitment at recruitment firm Adecco Vietnam, said demand should surge in the second quarter since Vietnam has been successful in containing the pandemic.

(Source: Vietnam Times)

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Bangkok Post THAILAND WORLD BUSINESS OPINION AUTO LIFE

BUSINESS

Panasonic moving factories to Vietnam, 800 jobs to go in Thailand

PUBLISHED : 21 MAY 2020 AT 16:27 WRITER: REUTERS

Japanese appliance-maker Panasonic Corp said on Thursday that next year it will move its Thai-based production of refrigerators and washing machines to Vietnam, laying off about 800 workers.

"Panasonic will reorganise its white goods production sites in Southeast Asia, and transfer the production of washing machines and refrigerators in Thailand to Vietnam," the company said in an statement emailed to Reuters.

Panasonic will dismiss about 800 workers in Thailand, a company spokeswoman told Reuters, adding that the move is part of its plan to improve cost efficiency.

(Source: Bangkok Post)

We hope that Vietnam is able to use its several week head start in reopening its economy to further take advantage of the manufacturing shifts from China and other countries into Vietnam.

Economy

Macroeconomic Indicators				
	2017	2018	2019	May-20
GDP	6.81%	7.08%	7.02%	3.82%
Industrial production (YoY)	9.4%	10.2%	8.9%	1.0%
FDI disbursement (USD bln)	17.5	19.1	20.4	6.7
Exports (USD bln)	213.8	244.7	264.2	99.4
Imports (USD bln)	211.1	237.5	253.1	97.5
Trade balance (USD bln)	2.7	7.2	11.1	1.9
Retail sales (YoY)	10.7%	11.7%	11.8%	-4.8%
CPI (YoY)	3.53%	3.54%	2.79%	4.39%
VND	22,755	23,175	23,230	23,281
Credit growth (YoY)	17.0%	13.9%	12.1%	1.3%
Foreign reserves (USD bln)	51	60	73	84

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

31st May 2020

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Subscription

The next subscription deadline will be 24th June 2020. If you would like any assistance with the subscription process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

Estimated NAV as of 31st May 2020

NAV	1,629*
Since Inception	+62.9%*
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%	-18.7%	+12.92%	+4.6%*								**-8.96%***

***According to internal calculations**