

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
CIO	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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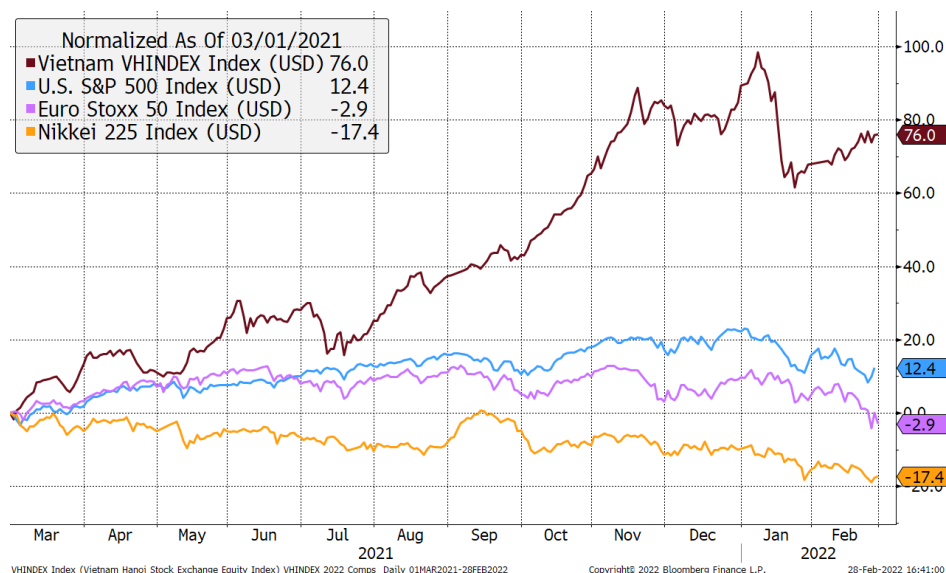
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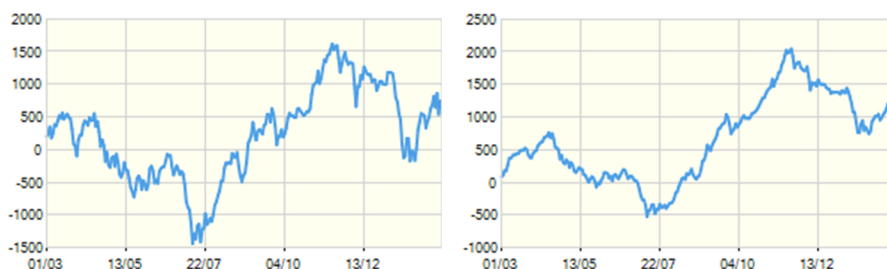
Vietnam was able to decouple from other markets, as a further rebound in economic activity led to local buying demand. Other good news includes the complete opening up for international tourism as soon as mid-March which will likely further boost the economy, while little impact from the current crisis in the Ukraine is to be expected. The index gained +0.8% in February, with a recovery in mid- and small-caps after heavy losses in January. Our portfolio recovered as well and ended up +2.0% despite a slightly weaker Dong (NAV USD 3,535), according to internal estimates.

Market Developments

February's "boring" performance shows the relative immunity to volatility compared to what we have seen in many other parts of the world. The first trading month after the TET-holidays was highlighted by strong performance in banks and energy, and weaker prices in listed Vingroup companies. Market breadth (the advance/decline ratio) even improved for the first time in months which is the result of refreshed optimism by Vietnamese investors after life returned to almost normal after the abundance of most COVID-19 restrictions, despite rising COVID-19-cases. The Vietnamese stock market is mainly driven by domestic investors and is less influenced by international politics, which is something we certainly like a lot in the current environment. How stable Vietnam was both in the short-term and on a one-year basis, shows the comparison with developed markets such as the US, Europe, and Japan.



(HSX vs. S&P500, Euro Stoxx 50, FT China, 1 year; Source: Bloomberg)

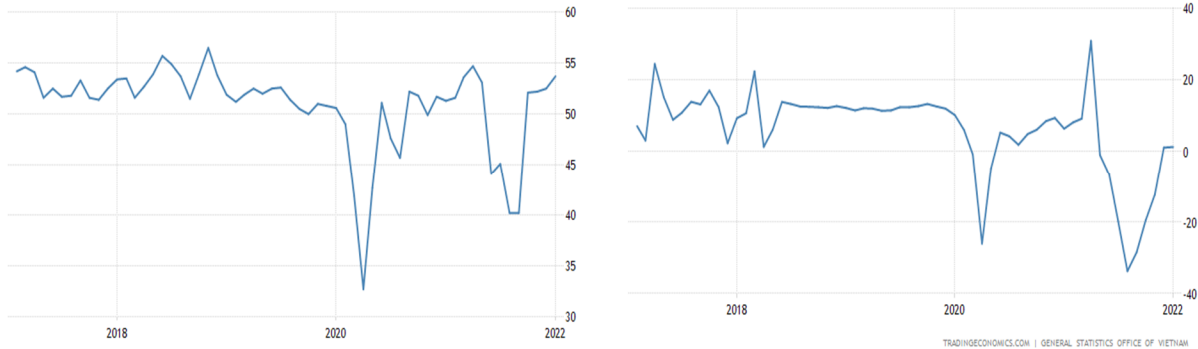


(Market breadth HSX and Hanoi, 1 year; Source: Stockbiz)

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The economic recovery is moving ahead as expected, with manufacturing activity and retail sales improving from the lockdown-related lows of last year. The only remaining problem sector is tourism.

Purchasing Managers and Retail Sales Indices



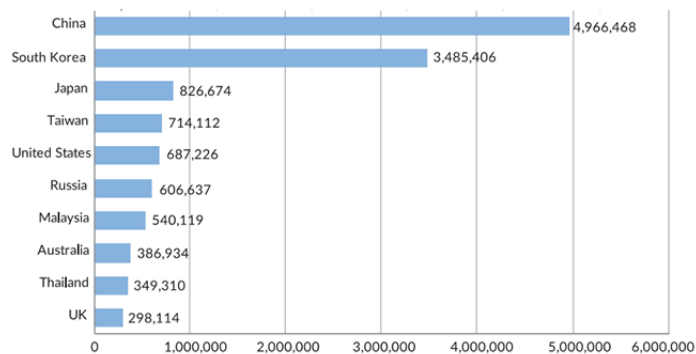
(Source: Trading Economics)

The Western world's current economic pressure on Russia to stop the military threat against the Ukraine failed and it is becoming increasingly clear that the world's problems do not get fewer. Almost irrespective of the actual outcome of this crisis, we can expect to see only losers, as with all military proxy fights between "The East" and "The West" in recent decades, at least economically. If economic sanctions in any way include China as some people are requesting, in fear that all sanctioned goods and possibly services to Russia will be circumvented through their new best friend, China, far-reaching consequences for trade could result.

Vietnam, despite being a communist country, has leaned economically toward the West in recent years, and it is historically not known as one of China's best friends and has always tried to stay (wisely!) politically out of most lines of fire over the past few decades. Vietnam has always tried to stay on good terms with countries of all sides which is probably one of the many reasons for its economic success. The decade-long globalisation trend might have seen its peak with COVID-19 related bottlenecks in production and shipping, but this new crisis could be a net-positive for Vietnam's trade, as the West needs economically and politically reliable alternatives to China, now more than ever. The apparent bigger risk for the domestic economy in the short term could be a slower recovery in international tourism as broadly hoped for, if widening political conflicts reduces people's desire to travel far away from home for a holiday - precisely at a time when the country is pushing aggressively for an opening of international tourism.

Anyway, the impact for Vietnam from the Ukraine/Russian crisis should be very limited as neither trade nor tourism with them is highly important, although like other tourist destinations in Asia and Europe, Russian tourists have been increasingly sought after in Vietnam over the past 10 years.

Figure: Top 10 inbound source markets in 2018 (arrivals)



(Source: Vietnam National Administration of Tourism)

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These were of course numbers before COVID-19, so the actual tourist income over the past two years is negligible, and a weak Russian ruble and deteriorating purchasing power of the middle class has reduced international tourism already years before COVID-19.

Russian International tourism, expenditures for passenger transport items (current USD)



(Source: Worldbank)

With other countries in the region currently opening up more or less aggressively, Vietnam reacted in recent weeks very swiftly by changing its pseudo-opening policy of recent months where only limited tour-packages could be booked, attracting just a few thousand tourists. Complete details are still to follow, but proposals are that from 15th March 2022 onwards international tourists will only need to present a PCR test before arrival, with an additional test to be done within 24 hours after arrival in Vietnam. After a negative test there should be no restrictions for movements around the country.

Within days of these announcements, several airlines opened up international routes to Asian, Australian, European and American destinations, including newcomer Bamboo Airlines, owned by Vietnamese FLC Group which is now flying to Melbourne, Bangkok, Frankfurt, London, Tokyo, Seoul, Singapore, and Taipei, on new Boeing 787-9 Dreamliner airplanes.

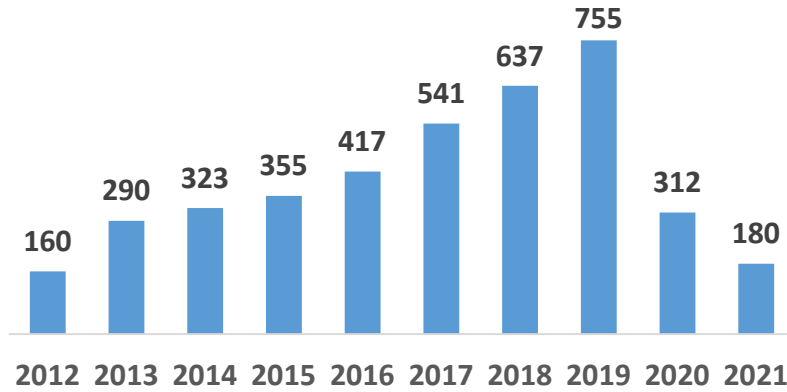


(Source: Boeing)

In 2019, tourism represented roughly 9% of Vietnam's GDP. The collapse in tourism revenues since then clearly shows the additional potential for the economy once the borders are opened and tourism recovers. Even if it takes years for a full recovery, it is easy to see how tourism will help Vietnam to grow an additional 2-3% for a few years to come if the pandemic comes to an end.

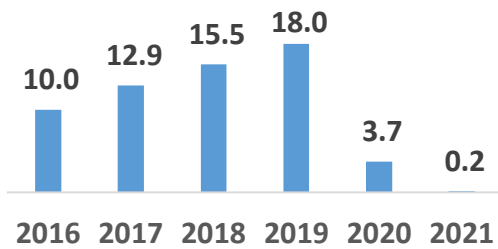
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Tourism revenue (VND trln)

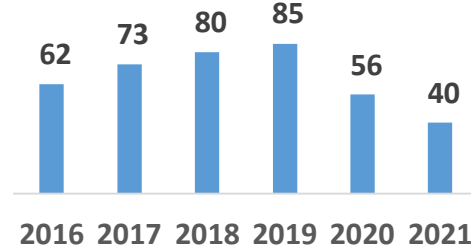


(Source: Vietnam Tourism Department)

International visitors (million)



Local travelers (million)



(Source: Vietnam Tourism Department)

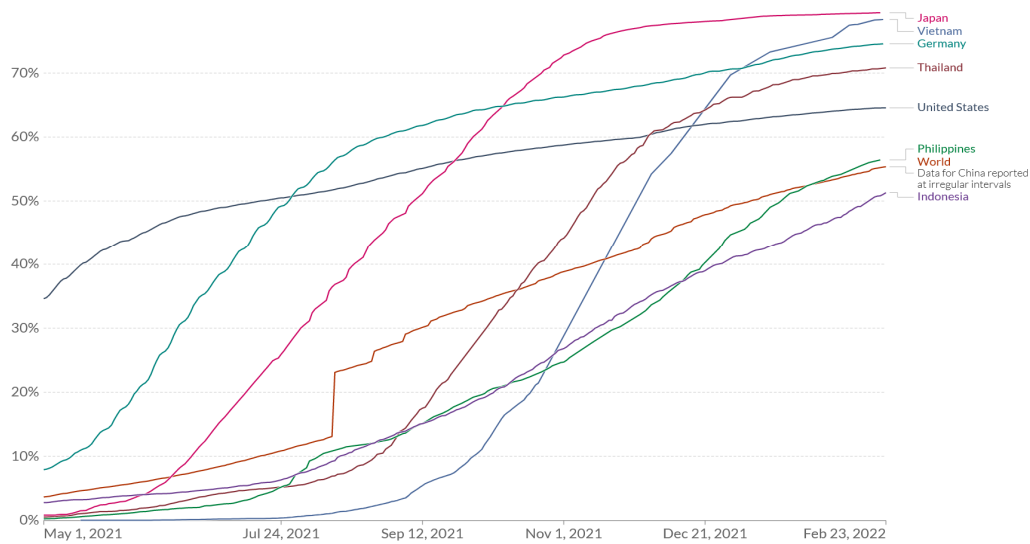
The impressive vaccination campaign made it easier for the government to decide to open up the country completely again. 75 mln people are now fully vaccinated, with 38.6 mln people already having received their booster.

Share of people who completed the initial COVID-19 vaccination protocol

Total number of people who received all doses prescribed by the initial vaccination protocol, divided by the total population of the country.



LINEAR LOG



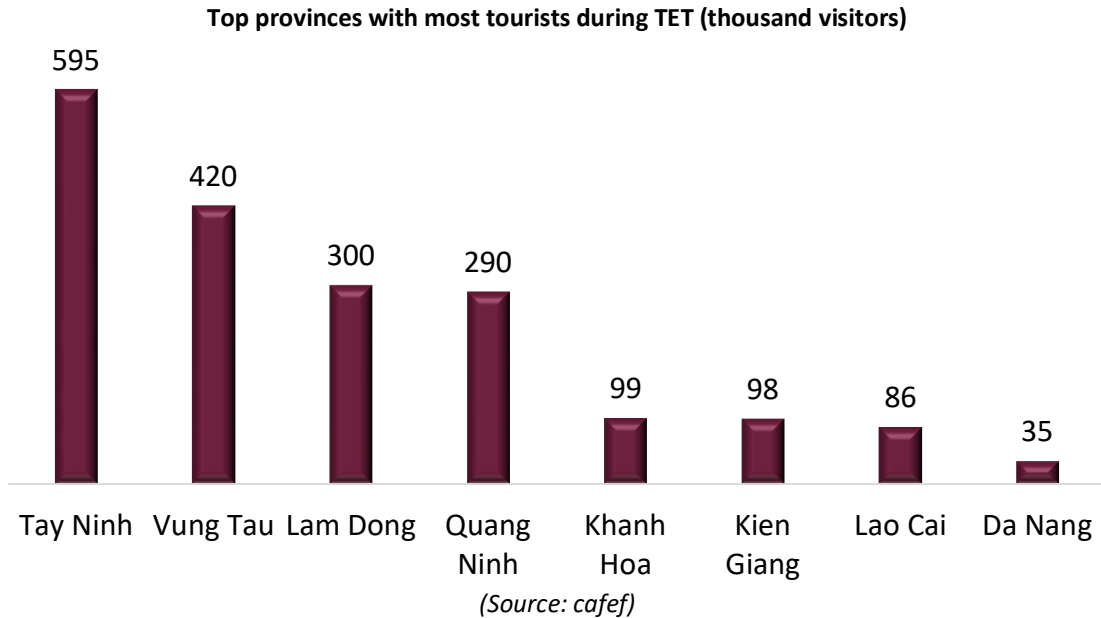
Source: Official data collated by Our World in Data
 Note: Alternative definitions of a full vaccination, e.g. having been infected with SARS-CoV-2 and having 1 dose of a 2-dose protocol, are ignored to maximize comparability between countries.

CC BY

(Source: Our World in Data)

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While the effect from the resumption of international tourism is yet to be seen, the recent TET holiday proved that people are ready to travel again, as in many provinces sightseeing places attracted large crowds of people again. For example, Ba Den Mountain in Tay Ninh Province, the number of tourists during TET surpassed last year's level. Tay Ninh became the most crowded province which attracted the most tourists and thousands of people were waiting for cable cars to reach the top of the mountain during the week of TET.



Long line at Ba Den Mountain Cable Station during TET



(Source: cafef)

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There are a few attractive investment opportunities in this sector and one of them is Tay Ninh Cable Car Tour (TCT) which is expected to benefit strongly from this recovery. The first quarter in the year is the main business season of TCT and contributes around 70% of total profits for the year. With a strong recovery in the number of tourists, together with the almost doubling of ticket prices (from VND 130,000 to VND 250,000 per ticket!), we expect a strong earnings recovery for TCT in 2022. Even though the stock price performed well recently, the company still looks undervalued in our view. Based on pre-pandemic profits of 2019, which we expect to be reached with the recovery in tourism, the P/E would be only 7.5 times.

TCT stock price



(Source: VCSC)

Besides TCT, we also think that another tourism company, Dam Sen Water Park (DSN) will have a strong earnings recovery during summer, which is the key business season for this company. In terms of COVID-19, Ho Chi Minh City is considered to be one of the safest cities in Vietnam right now with a 99.9% vaccination rate (>18 years old) and Dam Sen Water Park is expected to benefit from this nicely, given that they are the largest water park in Ho Chi Minh City with around 2.5 to 3 mln visitors every year before COVID-19. The company trades at around 6.1 times 2019 earnings (pre-pandemic). We regard the current level as attractive and expect that the stock price will recover strongly during the summer when visitors start to return.

DSN stock price



(Source: VCSC)

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TCT and DSN survived the pandemic well because they are both cash rich with strong balance sheets which helped them to maintain their business operations despite low capacity. DSN has VND177 bln in cash, which is around 30% of its market cap of VND580 bln. Meanwhile, TCT has a cash balance of VND277 bln, around 50% of its market cap of VND547 bln. One of our investment criteria is to look out for companies with a strong balance sheet that provides them the financial strength to overcome difficulties and survive during hard economic times. We therefore expect that these 2 companies will recover very strongly and quickly as soon as tourism rebounds, but of course also other tourism related companies should benefit, such as for example aviation, F&B, hotels suppliers, etc.

Economy

Macroeconomic Indicators				
	2019	2020	2021	Feb-22
GDP	7.02%	2.91%	2.58%	2.58%
Industrial production (YoY)	8.9%	3.4%	4.8%	5.4%
FDI disbursement (USD bln)	20.4	20.0	19.7	2.7
Exports (USD bln)	264.2	281.5	336.3	53.8
Imports (USD bln)	253.1	262.4	332.3	54.7
Trade balance (USD bln)	11.1	19.1	4.0	-0.9
Retail sales (YoY)	11.80%	2.60%	-3.80%	1.70%
CPI (YoY)	2.79%	3.23%	1.89%	1.68%
VND	23,230	23,108	22,782	22,805
Credit growth (YoY)	12.1%	10.5%	13.0%	2.5%
Foreign reserves (USD bln)	73	92	105	105

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

Subscription

The next subscription deadline will be 25th March 2022. If you would like any assistance with the subscription process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

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Estimated NAV as of 28th February 2022

NAV	3,534*
Since Inception	+253.4%*
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%	+2.0%*											-0.6%*

*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.*

The fund is authorized for distribution to professional investors in Hong Kong, Japan, Singapore and the UK.

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