

# 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

## Contact Information

**Asia Frontier Capital Ltd.**  
www.asiafrontiercapital.com

Mr. Andreas Vogelsanger, CEO  
Asia Frontier Capital (Vietnam) Limited  
Tel: +66 84435 7472, Fax: +852 3904 1017  
av@asiafrontiercapital.com

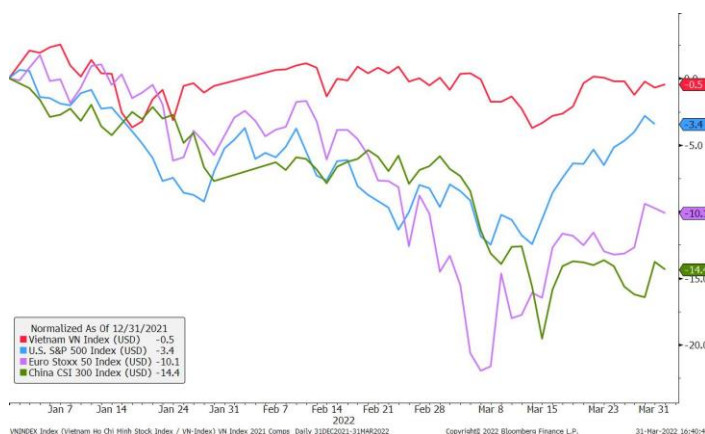
Registered Office:  
c/o Intertrust Corporate Services (Cayman) Limited  
One Nexus Way, Camana Bay  
Grand Cayman KY1-9005,  
Cayman Islands

Hong Kong Office:  
Asia Frontier Investments Limited  
1805, 18/Floor, Hing Yip Commercial Centre  
272-284 Des Voeux Road Central, Sheung Wan  
Hong Kong

Once again, Vietnam showed resilience against global volatility, as the conflict in Ukraine does not affect its economy very much. Our patience to focus on future winners in a rising interest rate environment starts paying off - please read below. Pre-announcements of first quarter earnings show strong growth and this should lead to a tailwind for the stock market this year if forecasts are correct. The index was little changed, +0.1% in March, while the recovery in mid- and small-caps continued. Our portfolio increased sharply and ended up +6.0% to a new all-time high NAV of USD 3,744, according to internal estimates.

## Market Developments

Turbulent political times lead to volatile markets – that is to be expected. But less expected was the strong recovery in most markets in March – but at the end of the day it is better to have much less volatility in the first place – as was the case in Vietnam.

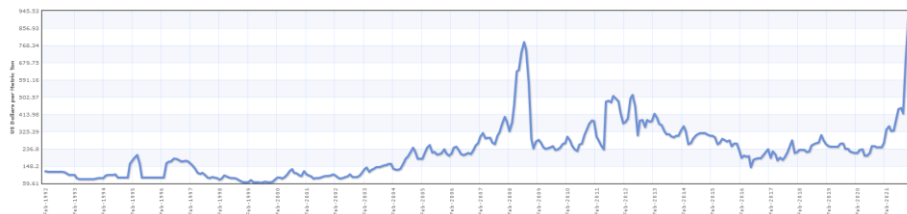


(Source: Bloomberg)

We are deeply concerned and shocked about the gravity and tragedy of events in Ukraine, which is an extreme external shock that will have many geopolitical and economic ramifications over the next few decades. The transition from neo-liberalism to state-sponsored capitalism has just accelerated dramatically, starting with the intervention in 2009 to avoid a financial meltdown, 2011 to avoid a Euro-crisis, and now again where it seems to reach almost every corner of the economy, from business owners to the regular citizen. COVID-19 business support, energy bottlenecks, etc.

In order to absorb some of the economic shocks of the war in Ukraine, the world needs to ensure a robust supply of raw materials. Regions and countries are differently affected by skyrocketing price increases of gas, fertilizers, and many other materials. In fact, many farmers, especially in poor areas in Africa, are on the edge of giving up as they do not see any prospect of making money without any government support as in developed countries.

## Urea prices over the past 30 years (1992-2022)



(Source: IndexMundi)

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Farmers are unable to raise their product prices the same as their input costs are surging, after fertilizer prices jumped to new all-time highs. The impact could therefore be dramatic for these nations, and it will take at least one harvest season to adjust to the new situation and to reduce the risk of a worldwide food crisis. On the other hand, if we compare the current prices for certain agricultural commodities with the prices from 10-12 years ago, we realize that we have seen these levels before – not even taking into account any inflation adjustments over the years.

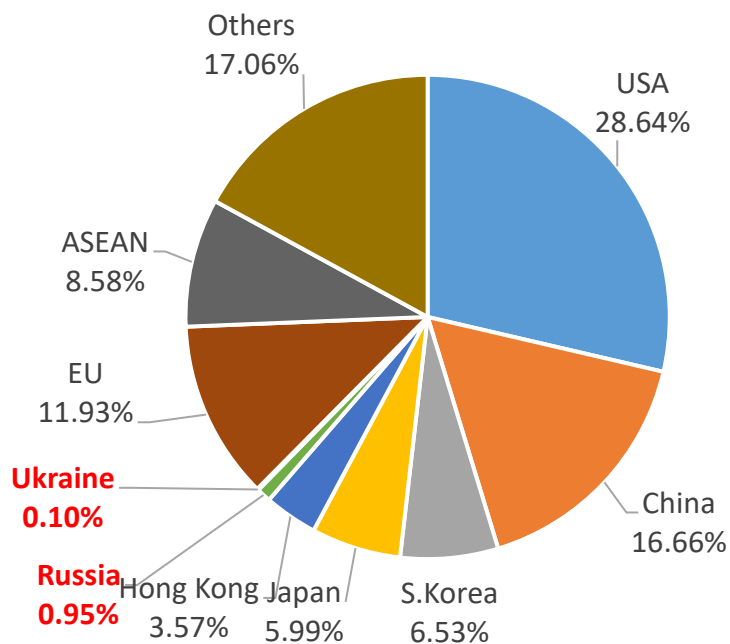
Long term prices for Wheat, Corn and Soybeans (1998-2022)



(Source: Finviz)

Unlike in Europe or the U.S., consumer sentiment is still rising in Vietnam with overall inflation concerns mostly limited to higher energy prices, while the Russian-Ukraine conflict will most likely have little impact on the economy otherwise. Russia contributed only 0.95% of total export revenues in 2021, equivalent to USD 3.2 bln and 0.69% of total import value, equivalent to USD 2.3 bln. Ukraine plays an even smaller role in the Vietnamese trade balance, equivalent to just 0.1% of total trade in 2021. Consequently, both Russia and Ukraine contributed only 1% of total trade of the nation in 2021.

Russia and Ukraine contributed only 1% of total Vietnamese export revenue in 2021

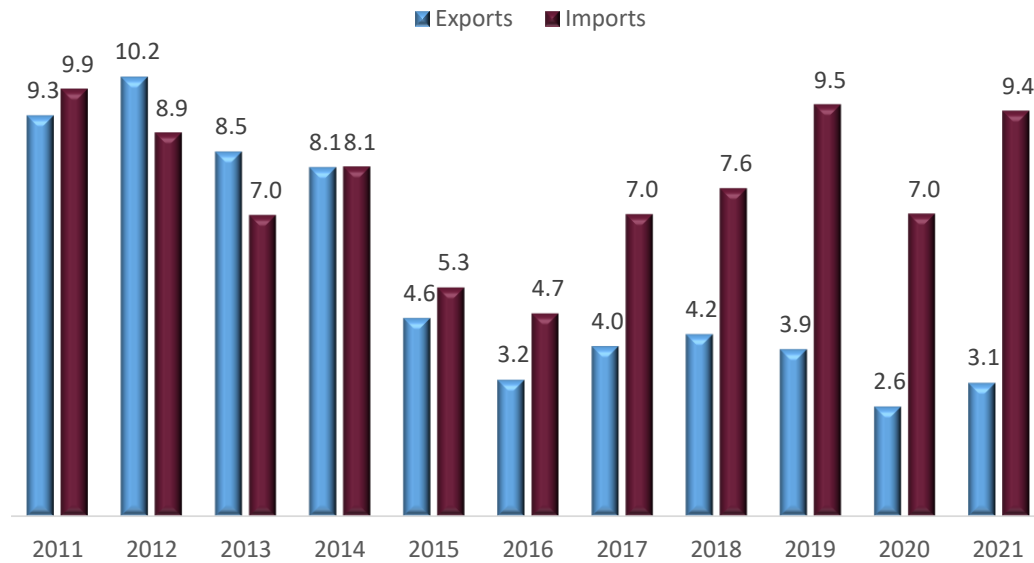


(Source: GSO, AFC Research)

What also impacts Vietnam are the effects of the special financial operation of the West which led to export stops of many Russian goods desperately needed in agriculture and for industrial production. The long-term inflationary impact for the world is currently a guessing game which will be the result of the totally unknown outcome of this conflict. Gasoline prices in Vietnam for example, were adjusted 10 times in 2022 to the historical record level of VND 29,820 per liter. Given that Vietnam is one of the fastest growing countries in the world, its energy consumption also grows strongly. Vietnam explores for its own oil and gas, but given its ever rising energy appetite, it became a net oil importer in 2015.

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Oil & petrol trade in Vietnam (USD bln)



(Source: GSO, AFC Research)

However, fuel and transportation are only 3.6% and 9.7% of the CPI basket respectively, compared to 35% for food and beverages. According to the yearly target of the National Assembly, CPI is expected not to exceed 4% this year from currently around 2%.

Inflation in Asia low compared to the West



(Source: Bloomberg)

The Vietnamese government agreed to fully reopen its borders to foreign tourists again, which should lead to high economic growth this year of around 7% to 7.5%. The peak of COVID-19 infections was reached in mid-March 2022 and Vietnam now allows all tourists to enter the country with a single test before departure. The massive economic stimulus package should boost this positive sentiment even further and with high expected earnings growth for this and next year, we could see the perfect storm for a continuation of last year's equity market bull run.

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### VN-Index EPS and index targets

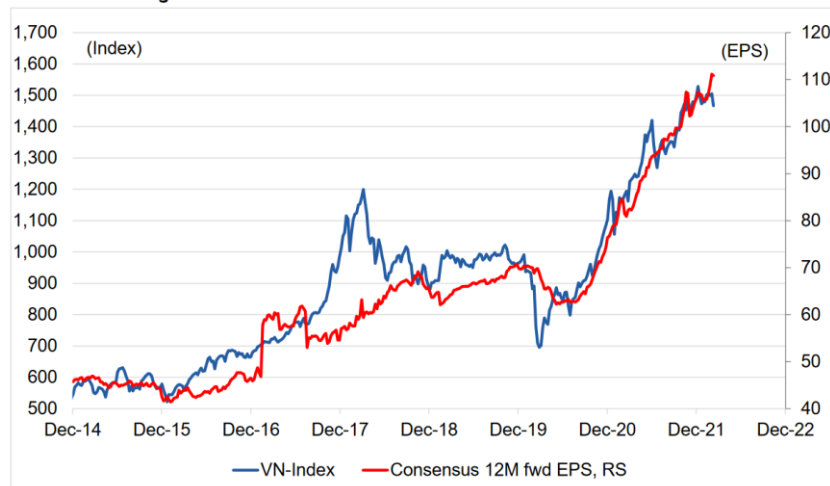
	2019	2020	2021F	2022F	2023F	2024F
VN-Index*	961	1,104	1,498	1,700	1,900	N/A
Change, %	8	15	36	13	12	N/A
Index EPS	63.6	64.0	87.8	109.8	133.6	156.3
Change, %	7	1	37	25	22	17
TTM P/E at targets, x	15.1	17.3	17.1	15.5	14.2	N/A
12M Fwd P/E, x	15.0	12.6	13.6	12.7	12.2	N/A
P/E at 11-Mar-22 VN-Index 1,467			16.7	13.4	11.0	N/A
Upside to targets, %				16	30	N/A

(Source: Viet Capital Securities)

If we apply the same valuation of 17x earnings, like in the past two years, on 2024 expected earnings, we are coming up with an index target of 2,650 for the VN-Index, up 75% from current levels. As a comparison, an equivalent rise of 75% in the Dow Jones Industrial Average would be 60,000, or 6,750 for the Euro Stoxx 50. We certainly feel more comfortable with our call for Vietnam!

### Index is strongly correlated to earnings expectations

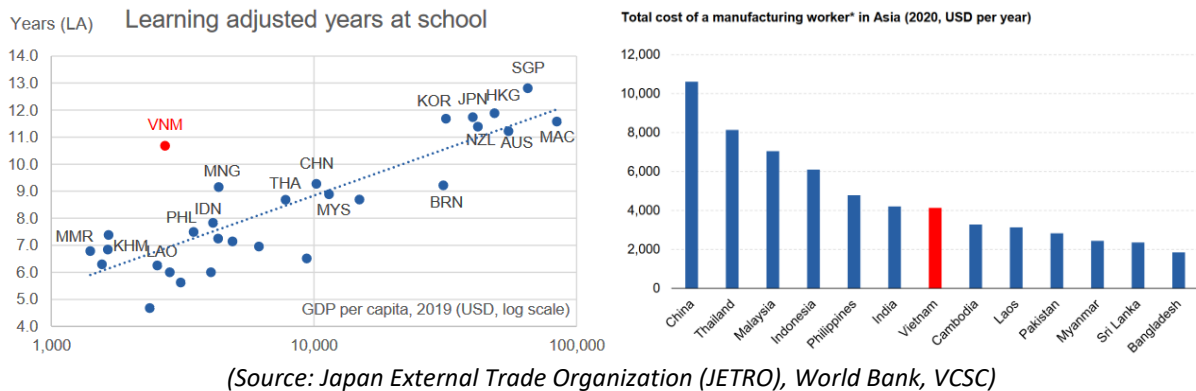
#### VN-Index & rolling 12M forward consensus EPS



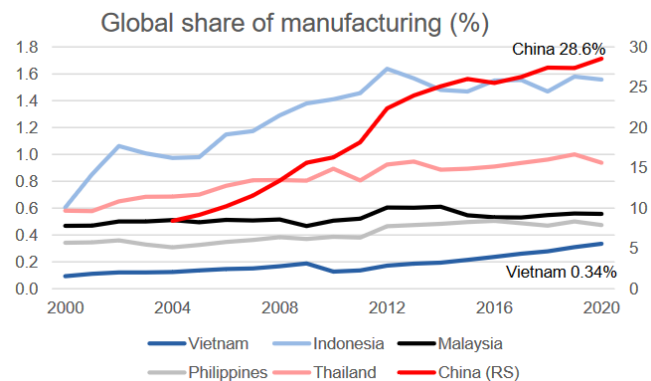
(Source: Bloomberg, VCSC)

Our optimism is based on manifold reasons, many of which we have repeatedly brought up over the years, and they are intact more than ever. The economy in Vietnam was historically held back for similar reasons China was held back for many years. Despite having a strong economic run in recent years, where workers participated and the middle class grew at a very fast pace, labor cost is still relatively low. Therefore, FDI (foreign direct investments) should continue to see strong inflows as foreign companies see the advantage of the priceless combination of better education and lower labor cost.

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While Vietnam's export sector can be named as the current most successful in the region, the global share is still low, and therefore we forecast a continuation of the positive trend which is just underlined by recent political events where the West is just learning the hard way how important reliable and politically stable trading partners are.



Like in many developing countries, financials are heavily weighted in Vietnam's stock market index. The beginning of the reversal in interest rates will benefit financial companies worldwide as it will do in Vietnam. We expect that the increase in total earnings from listed financial companies in the next 2 years could be around 60% of the total earnings increase, and we therefore monitor this sector closely in order to participate from this trend.

## Insurance over banks

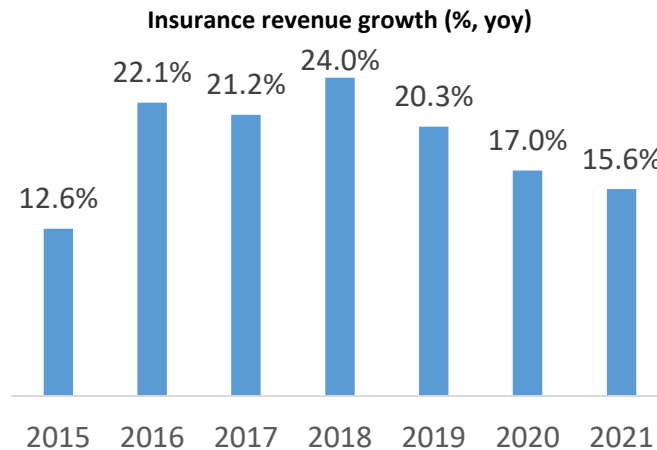
We are heavily overweight the insurance sector over banks for several reasons, despite, or maybe even because the market cap in the banking sector is much bigger than the mostly overlooked insurance sector, at least until now. Only just recently, insurance stocks started to outperform and helped our overall fund performance. The impressive performance of bank earnings – and stock prices – last year were partly the result of non-ordinary reasons which will not continue over the next few years.

Net profit of listed banks jumped over 50% yoy in 2021. The reason banks made such huge profits in 2021 was that the Vietnamese state bank allowed commercial banks to rollover all bad debts that were affected by COVID-19. Thanks to this policy, NPL (non-performing loans) provisions in the banking system tumbled and helped banks to substantially increase their profits. Besides that, also the low interest rate environment supported banks to expand their NIM (net interest margin). It is widely expected that the economy will grow strongly in 2022, and therefore banks are expected to benefit alongside. However, the sector also faces some obstacles such as the following:

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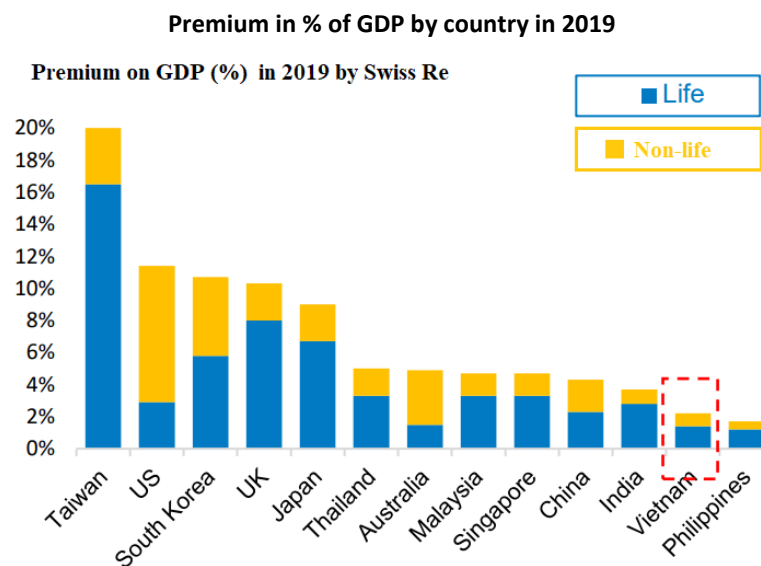
- Increasing deposit interest rates which may narrow NIM's of the banking system. Meanwhile the government is urging banks to reduce their lending rates to support economic growth.
- The Vietnamese state bank may stop allowing banks to rollover bad debts which were affected by COVID-19 in 2022. This would mean that banks would have to increase their provision expenses which will have a negative impact on their P/L statements.

In contrast to banks, the insurance sector faced a lot of difficulties in 2020 and 2021 due to the low interest rate environment, which led to lower income from deposits, which are an important income driver in the insurance sector. But in 2022, interest rates started to move up which have already had a positive impact on insurance revenues. Despite relatively low insurance penetration in Vietnam, the sector is growing on average 15-20% per annum, even in 2021, where revenues grew at 15.6% despite the negative COVID-19 impact. Overall, we do think that the insurance sector has ample room to grow and will show stable and attractive revenue growth over the years to come. We are therefore overweight this sector in our portfolio.



(Source: GSO)

If we look at insurance premium to GDP, the Vietnamese insurance sector seems to be very attractive with only 2% of GDP in 2019 compared to above 5% of other countries in the region, such as China, Thailand, Singapore or Malaysia. The low penetration rate of the Vietnamese insurance sector certainly looks attractive with a high potential for growth in the future.



(Source: Swiss Re, BVSC)

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Besides the attractive organic earnings growth rate, the insurance sector is categorized as defensive and should have a positive impact and reduce the volatility in our portfolio, which is quite important with the current geopolitical tensions, and especially the war in Ukraine. The exclusion of some Russian banks from SWIFT and the sanctions on Russia created a lot of volatility in the global banking sector and Vietnam is not immune either, even though the effects on the sector are negligible.

The insurance sector in Vietnam vastly underperformed the VN-index and banks over the last 2 years, mainly due the COVID-19 pandemic and the low interest rate environment and hence lower growth. But with rising interest rates on the horizon, we believe the positive momentum in the insurance sector is picking up now.

### Insurance Sector versus VN Index and Banking Sector



(Source: AFC Research, HSX)

### Valuation of some insurance stocks

No	Ticker	Market cap (VND bln)	Total assets (VND bln)	PER (x)	P/B (x)	ROE (%)	ROA (%)	Div yield (%)	Net profit 2021
1	ABI	2,456	3,315	9.0	1.9	24.0%	8.7%	2.0%	273
2	BIC	3,436	6,044	8.7	1.3	15.8%	6.7%	4.0%	395
3	BMI	4,374	7,341	17.4	1.9	10.8%	3.6%	5.0%	251
4	BVH	42,312	169,461	22.5	1.9	8.8%	1.2%	1.0%	1882
5	MIG	3,389	6,595	15.1	2.0	13.7%	3.7%	0.0%	224
6	PGI	2,998	6,367	8.5	1.7	21.6%	5.6%	1.0%	352
7	PTI	4,679	8,604	17.4	2.1	12.8%	3.3%	2.0%	269
8	PVI	11,641	24,282	14.0	1.5	11.0%	3.6%	6.0%	830
9	VNR	4,597	7,159	13.2	1.4	10.8%	4.9%	5.0%	347

(Source: HSX, HNX, AFC Research, Vietstock)



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## Economy

Macroeconomic Indicators				
	2019	2020	2021	1Q-22
GDP	7.02%	2.91%	2.58%	5.03%
Industrial production (YoY)	8.9%	3.4%	4.8%	7.1%
FDI disbursement (USD bln)	20.4	20.0	19.7	4.4
Exports (USD bln)	264.2	281.5	336.3	88.6
Imports (USD bln)	253.1	262.4	332.3	87.8
Trade balance (USD bln)	11.1	19.1	4.0	0.8
Retail sales (YoY)	11.80%	2.60%	-3.80%	4.40%
CPI (YoY)	2.79%	3.23%	1.89%	1.92%
VND	23,230	23,108	22,782	22,836
Credit growth (YoY)	12.1%	10.5%	13.0%	4.0%
Foreign reserves (USD bln)	73	92	105	110

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

## Subscription

The next subscription deadline will be 25<sup>th</sup> April 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 31<sup>st</sup> March 2022

NAV	3,744*
Since Inception	+274.4%*
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%	+1.92%	+6.0%*										+5.3%*

\*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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