

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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2023 had a flamboyant start with European and US stock markets in positive territory. Also, the VN-Index gained an impressive 10.3% in the first month of the year, mainly due to the strong performance of bank stocks. The AFC Vietnam Fund unfortunately doesn't have much exposure to banks and hence the NAV rose by only +4.1% to USD 3,004 in January, according to internal estimates.

Market Developments

The AFC Vietnam Fund increased only by +4.1% in January. Meanwhile, the VN-Index jumped 10.3% from 1,007.09 to 1,111.18 points, the biggest increase in the last 12 months.

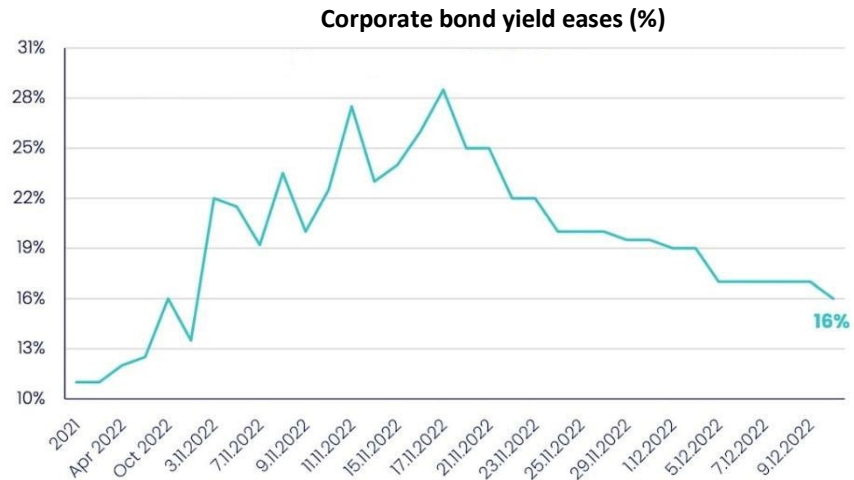


This strong gain in January was mainly due to the performance of the banking and basic material sectors, two of the larger sector weightings in the VN-Index at 35.3% and 8% respectively. The banking sector increased by an impressive 13.5% and the basic material sector at almost the same level of 18%, with steel manufacturers contributing to most of this gain. Both sectors pushed the benchmark index significantly higher. However, for most of 2022, the banking sector performed poorly, given that some of the banks had rather large exposure to the real estate sector, and hence our exposure to banks is quite small, and we have no exposure at all to the basic material sector. We do however envisage increasing our exposure to banks again, but we are not very bullish on the basic materials sector, given that for example large steel companies, such as Hoa Phat Group (HPG) reported huge losses in 3Q.2022 and 4Q.2022. Despite the bad results, HPG's stock price rallied 22.8% in January 2023 and 87.2% from the low in November 2022.

Vietnamese stock market to rebound in 2023

Despite impressive GDP growth of over 8% in 2022, the Vietnamese stock market tumbled around 35% in USD terms. The main reasons for this abysmal performance of the VN-Index in 2022 were a sweeping crackdown on corruption, the sudden stop in corporate bond issuance, and a sharp increase in deposit rates. We do however believe that some of these problems will be solved in 2023, and combined with the fact that current valuation of the Vietnamese stock market is very attractive with decent earnings growth of around 14% and a healthy GDP growth forecast of around 6% for this year, we are fairly optimistic that the market has strong potential to rebound. When we look for example at the corporate bond market, it clearly shows that the shock of November 2022, with exploding bond yields is behind us and we expect bond yields to ease further to around 12% to 15% over the next couple of months.

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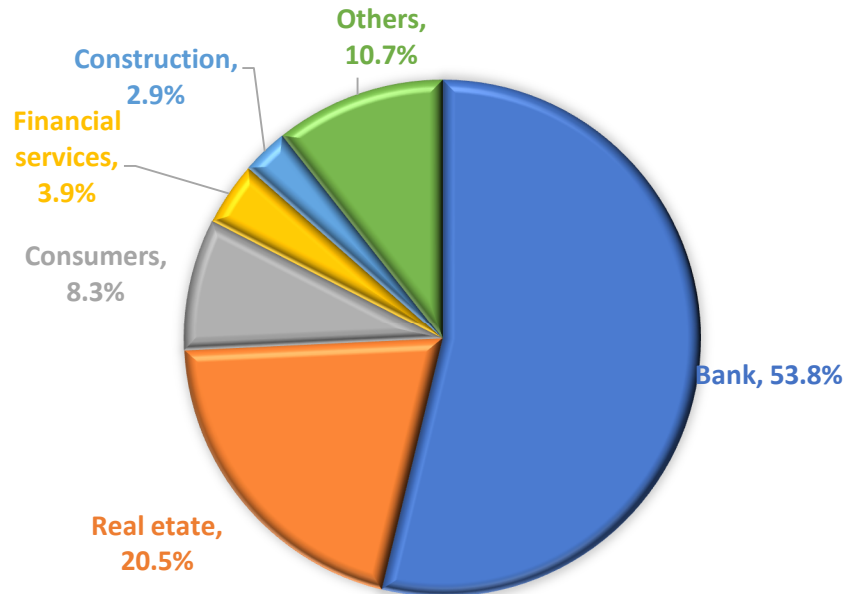


Source: Maybank Investment Bank

The Vietnamese Government recently issued a new regulation, allowing companies to extend the maturity of their corporate bonds to up to 2 years, which was welcomed by the market and in mid -December 2022. Nam Long Group, a real estate company, issued a VND 500 bn corporate bond at an yield of 12.94%, which was sold to the IFC (International Finance Corporation).

In 2022, the banking sector was leading the corporate bond issuance with 53.8% (~ USD 5.8 bn) of total volume, following by real estate with 20.5% (~ USD 2.2 bn)

Corporate bond issuance in 2022 (~ USD 10.8 bn) by sector

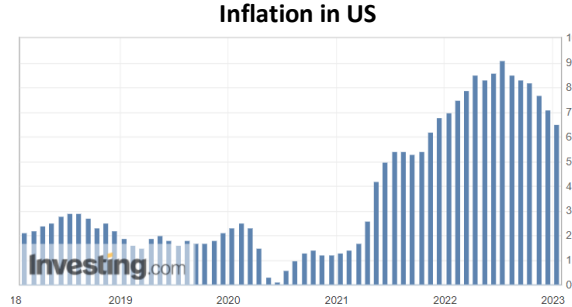


(Source: VBMA, Vietstock)

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USD / interest rates / inflation

The USD strengthened considerably in 2022, mainly due to the Fed’s aggressive interest rate hikes in order to bring inflation back under control. Towards the end of 2022 we started seeing the first signs that inflation slowly came down and at the same time the USD also started to weaken.



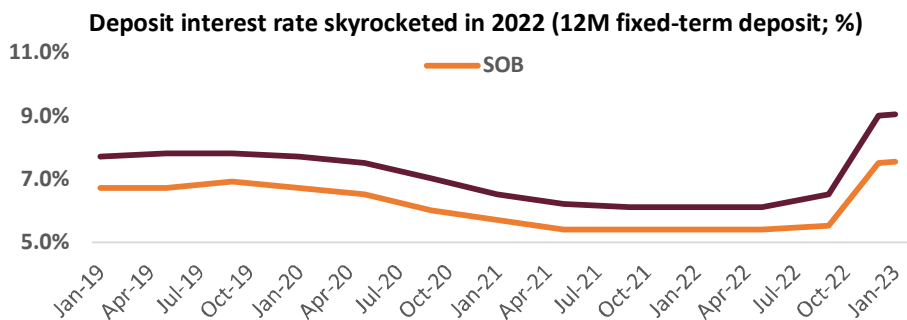
(Source: Investing)



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The market expects that the US has now passed the peak for headline inflation but the Fed will probably continue to raise rates early in 2023 to bring down inflation further and eventually cut rates in 2024. In uncertain and volatile times, as we are living in now, it is certainly challenging to provide accurate longer forecasts, and it might very well be that we will experience some unforeseen hopefully positive surprises, but the future will tell.

Also, in Vietnam we have seen some interest rate hikes from the State Bank of Vietnam (SBV) in 2022, but not to bring inflation under control, but to manage the exchange rate of the Vietnamese Dong. The weakening of the USD towards the end of 2022 was seen with great relief by the SBV and will certainly ease pressure to manage the FX rate and manage the country’s liquidity. We therefore believe that foreign reserves will raise again and that Vietnam’s deposit rates will likely come down further, after the strong increase in 2022.



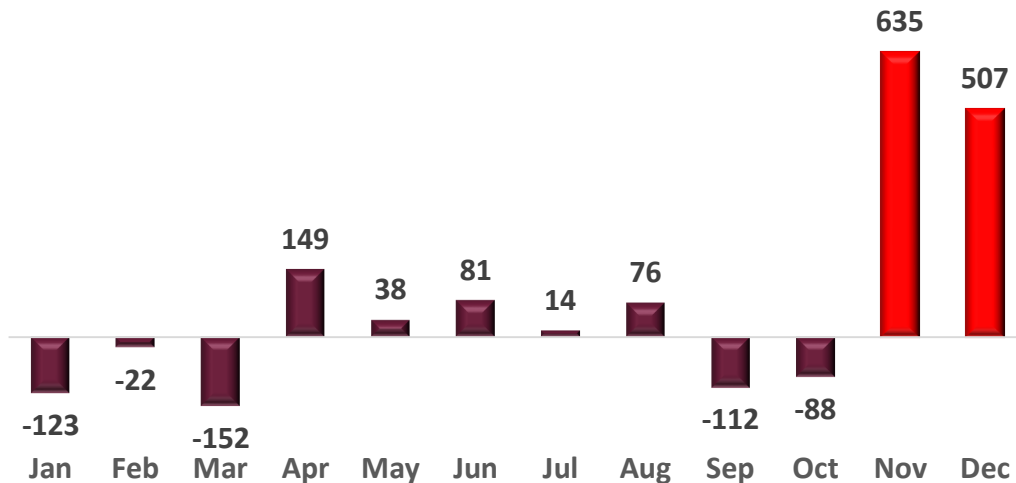
(Source: BVSC, Fiinpro)

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Market bottom

As mentioned, we do think that the Vietnamese stock market has bottomed out in November 2022 and we see strong potential for a rebound in 2023. It is interesting to see that foreigners came back to the Vietnamese stock market right at the bottom and poured in over USD 1.1bn in the last 2 months of 2022 alone.

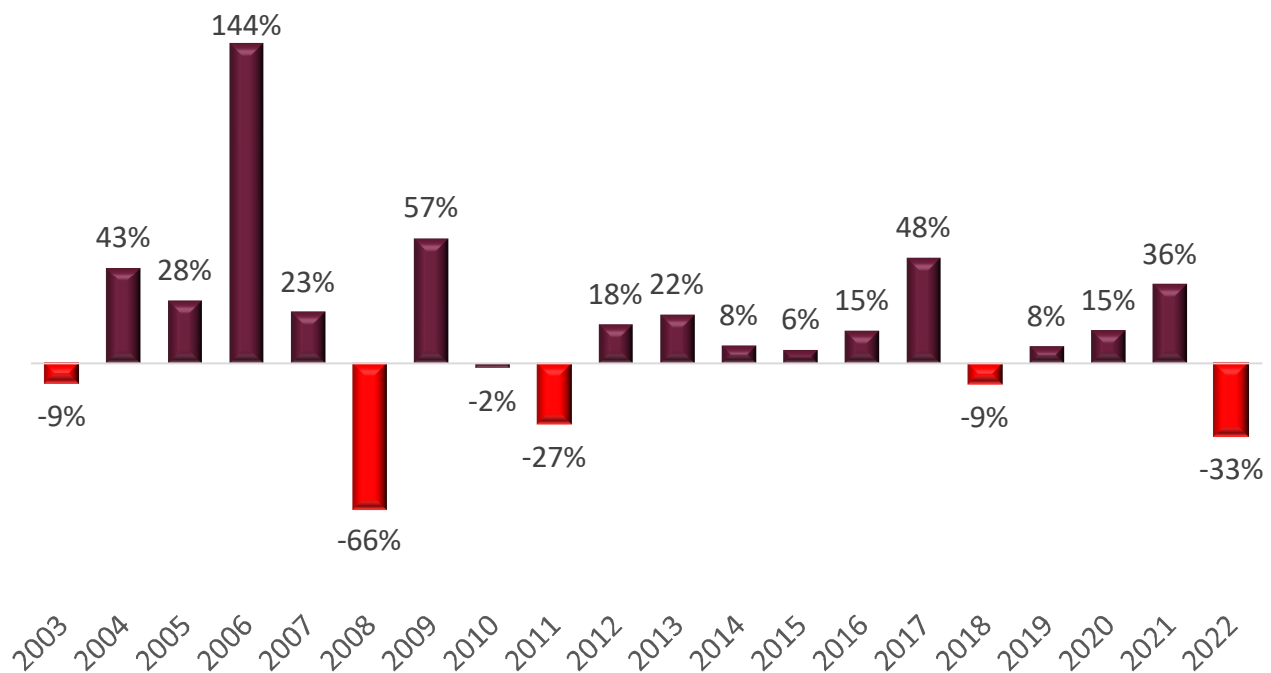
Foreign investors net buying value in 2022 by month (USD m)



(Source: HSX)

Despite a strong start of the year, the valuation of the VN-Index still looks very attractive trading well below its historical average with a P/E ratio of around 10.5x. Also, it is interesting to note that if you look back over the last 15 years, the VN-Index always had a strong rebound after a negative year.

VN-Index performance (%; yoy)



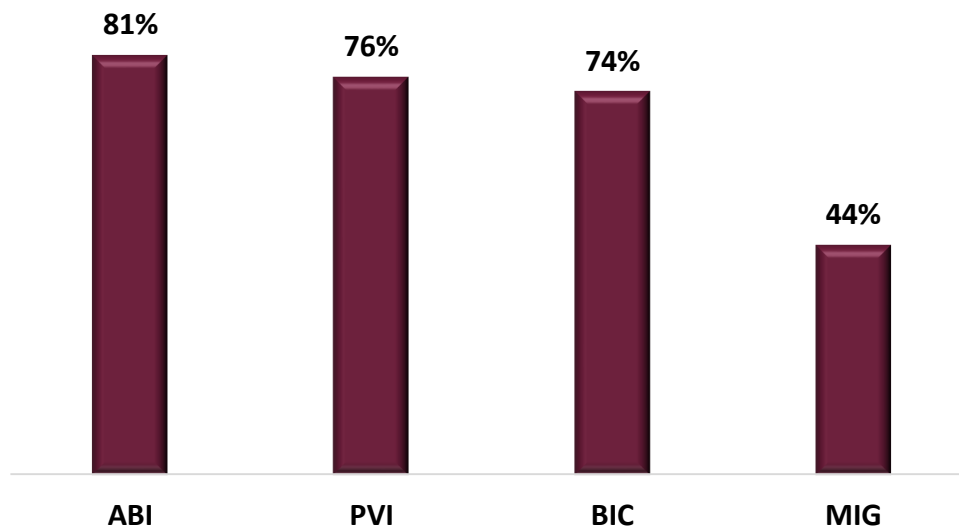
(Source: HSX, AFC Research)

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Outlook 2023

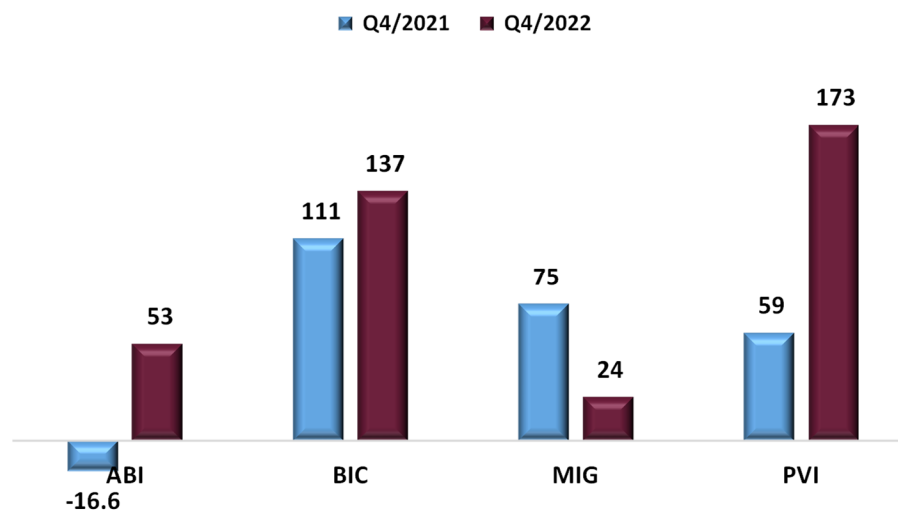
We believe that the Fed is going to keep interest rates elevated for the foreseeable future and we think the same applies for Vietnam. We will therefore keep an important allocation in our portfolio to the insurance sector, given that insurance companies are one of the main beneficiaries in a high interest rate environment. Many of these companies are very cash rich and are generating a lot of interest income in keeping their liquidity invested in fixed-term deposits. The valuation of the insurance sector also looks attractive with a P/E ratio of around 9x and Q4/2022 earnings results look encouraging. Particularly, the insurance companies we invested in, hold a substantial cash balance in relation to their total assets and they have no debts at all in their balance sheets.

Cash / total assets ratios of insurance companies



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

Net profit insurance companies (VND bn)

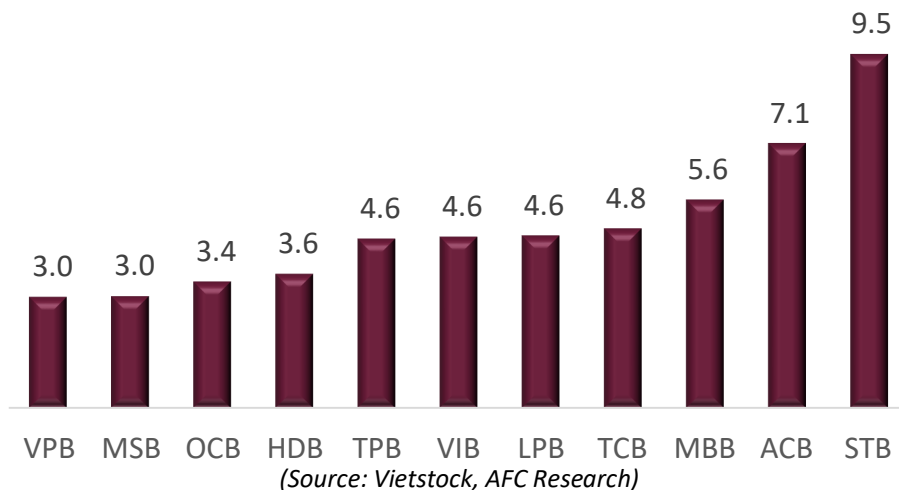


(Source: companies, HSX, HNX, AFC Research)

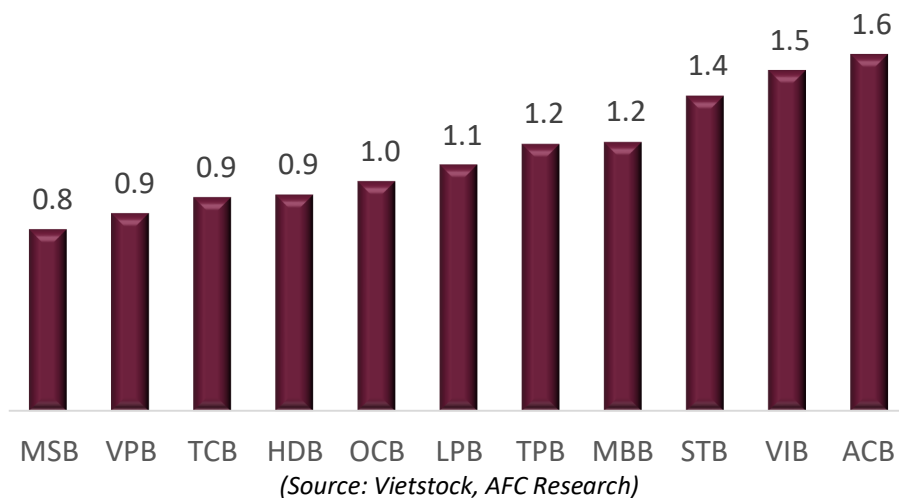
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The banking sector will also benefit in a high interest rate environment and the market expects this sector to recover strongly in 2023, given its attractive valuation (P/B 1x and P/E 5.5x) after a rather poor performance for most of 2022. But banks are probably a riskier bet than insurance companies and are facing more challenges, given for example their exposure to the real estate sector with its recent liquidity and credit crunch they experienced. Nevertheless, they are considered the “engine” of the economy and with an expected GDP growth of around 6% this year, they will continue to play an important role going forward.

Bank stocks attractive valuation (P/E)

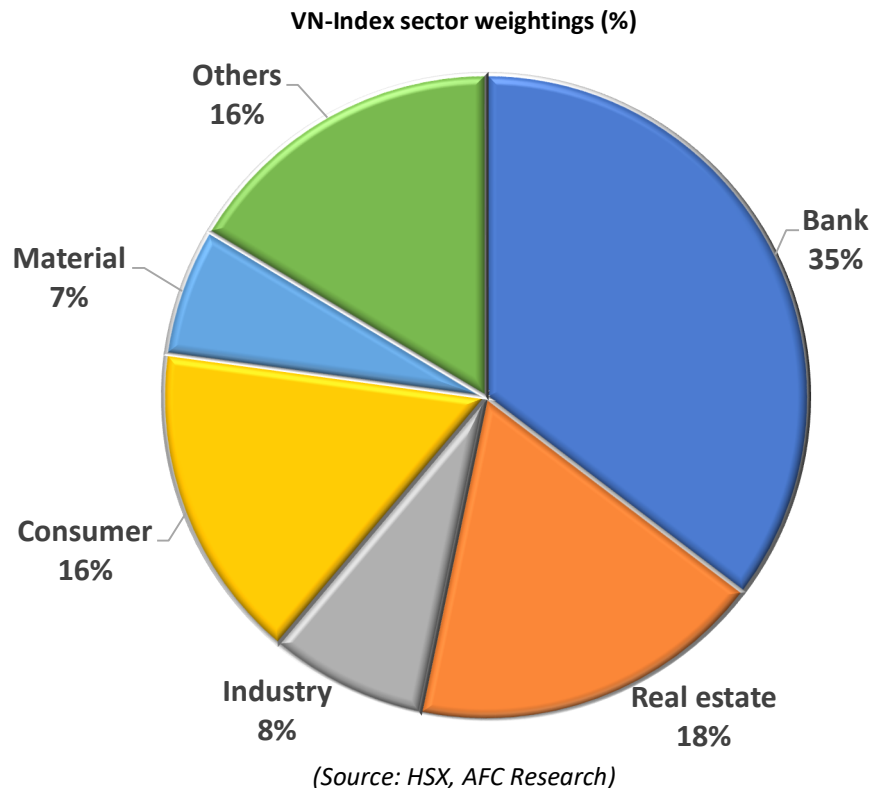


Bank stocks P/B

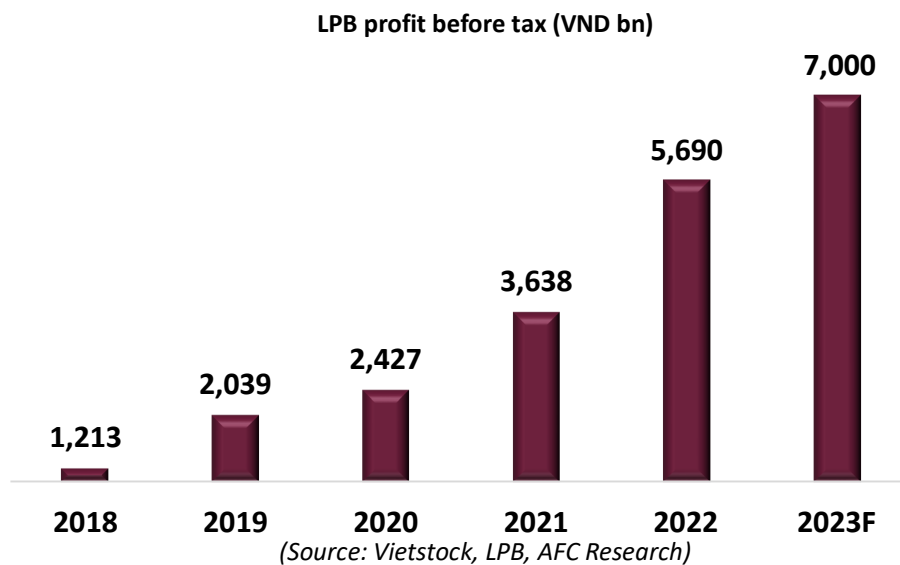


Also, the banking sector plays an important role in VN-Index structure with 35% weighting.

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We also have exposure to the banking sector and we are planning to increase it over the coming weeks. We will however be very careful choosing the banks we want to invest in. We believe that banks with a high exposure to corporate bonds and real estate will be more volatile and riskier to invest in. But we are less concerned to invest in banks, such as for example STB, ACB or LPB. Lien Viet Post Bank (LPB) for example reported strong profit growth in 2022 of 56%, reaching a record high of VND 5,690 bn. The total assets of the bank also jumped 13% compared to 2021.



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The long TET holidays in Vietnam from 20th-26th January just came to an end and there was extensive travelling around the country by many Vietnamese citizens to famous tourism places such as Vung Tau, Ba Den Mountain or Sapa etc.

Full of visitors at famous places during TET holidays

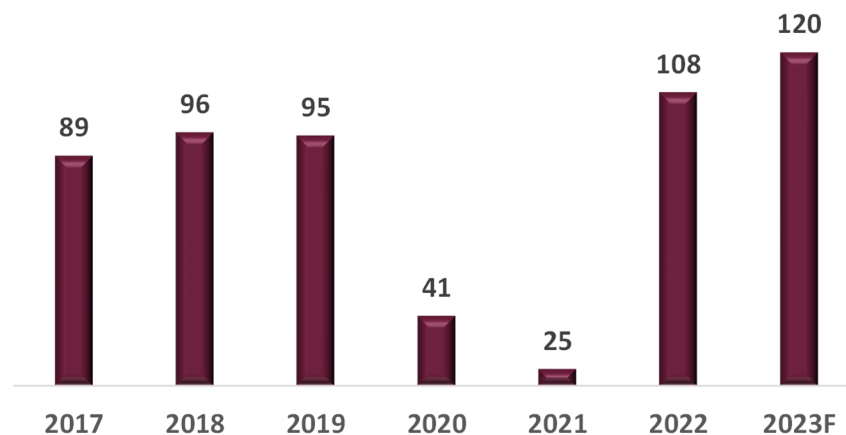


(Source: Vnexpress, AFC Research)

The Vietnamese tourist sector continued to recover strongly, but besides domestic tourism, we also expect a strong boom in international tourist arrivals, especially with China's reopening after three years of Covid-19 restrictions in terms of tourism and trade. Chinese tourists accounted for a 35% market share pre-COVID-19, equivalent to 5.8m visitors, contributing USD 5.8bn to this sector.

We also have exposure to this sector and invested in two tourism companies in our portfolio. Already in 2022, we saw a very strong recovery in revenues for both companies, particularly Dam Sen Water Park (DSN), whose net profit increased by 445%, surpassing pre-COVID-19 levels. DSN just announced that they will more than double their cash dividend from VND 1,500 to VND 4,000 for FY 2022.

Net profit of DSN (VND bn)



(Source: DSN, HSX, AFC Research)

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Economy

Macroeconomic Indicators				
	2020	2021	2022	Jan-23
GDP	2.91%	2.58%	8.02%	8.02%
Industrial production (YoY)	3.4%	4.8%	7.7%	-8.0%
FDI disbursement (USD bln)	20	19.7	22.4	1.4
Exports (USD bln)	281.5	336.3	371.9	25.1
Imports (USD bln)	262.4	332.3	360.7	21.5
Trade balance (USD bln)	19.1	4.0	11.2	3.6
Retail sales (YoY)	2.60%	-3.80%	19.80%	20.00%
CPI (YoY)	3.23%	1.89%	3.15%	4.89%
VND	23,108	22,782	23,663	23,449
Credit growth (YoY)	10.5%	13.0%	12.9%	NA
Foreign reserves (USD bln)	92	105	90*	90*

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

*According to internal estimates

Subscription

The next subscription deadline will be 22nd February 2023. If you would like any assistance with the subscription process please be in touch with Andreas Vogelsanger.

While almost everyone will ring in the Year of the Rabbit in 2023, Vietnam is welcoming the Year of the Cat. We wish you and your family a peaceful, happy and prosperous new year of the cat!

Chúc bạn và gia đình một năm mới Bình An, Hạnh Phúc và Vạn Sự Như Ý!



Best regards,

AFC Vietnam Fund

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NAV as of 31st January 2023

NAV	3.004*
Since Inception	+200.4%*
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%	+5.99%	-5.82%	-5.85%	-3.73%	+2.50%	+1.76%	-10.01%	-10.53%	+1.35%	+6.09%	-18.84%
2023	USD	+4.1%*												+4.1%*

*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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