

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

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
190 Elgin Avenue, George Town,
Grand Cayman KY1-9005,
Cayman Islands

Hong Kong Office:
Asia Frontier Investments Limited
905, 9th Floor, Loon Kee Building
267-275 Des Voeux Road Central
Hong Kong

Except for the last two days following the long Tet holiday, Vietnam's markets traded on low volume in what can be regarded as a volatile month. Following other markets, which corrected on uncertainties about the short-term impact on the Coronavirus 2019-nCoV, the HCMC Stock Index lost -2.5%, while Hanoi lost only -0.1% in local currency and small cap stocks took the biggest hit losing -6.4%. Our portfolio again showed less volatility during the month and with a slightly lower Vietnamese Dong our NAV lost -1.7% (USD 1,759), according to internal calculations.

Market Developments

The stock market in Vietnam had a very special start to the year. Chinese New Year began on 23rd January, shortening the number of trading days in the month. There was very little turnover in all market segments which was accompanied by a decline in the various indices in the first few days and especially in small caps which were under immense pressure. The Vietnam Small Cap Index lost more than 8% since Christmas, and from a technical angle now trades in tremendous oversold territory, which was in the past often a major turning point.

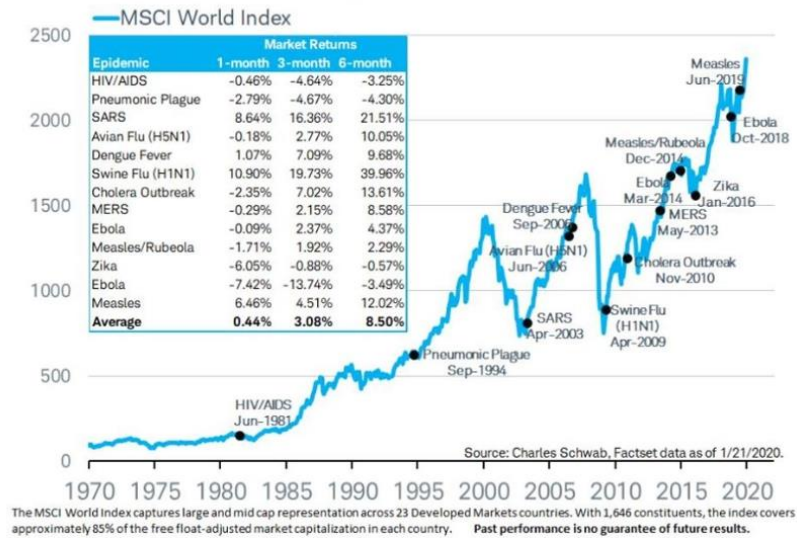


(Vietnam Small Cap Index from April 2014 to Jan 2020; Source: Viet Capital Securities)

Mid-month, blue chips started to turn positive, mainly due to the strong performance of banking stocks, while mid-caps followed a few days later. This was followed by small-caps starting to bottom out just before the Tet holiday break. When markets continued trading after the holidays, a 5.5% plunge followed, after other markets around the world corrected in previous days on news of the Coronavirus 2019-nCoV. Vietnam reported only 2 infections as of 30th January, but the government closed temporarily the border to China and took other actions to reduce infection risks. Of course, we are also watching the developments and checking our portfolio, but with no direct exposure to the tourism industry, we see currently only a few companies very mildly affected, with other companies potentially even profiting from the current situation. That also shows in the performance of our portfolio, especially during the last two trading days, where our losses were very limited. However, all epidemics over the past decades had only a short-term impact on financial markets.

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Immune: world epidemics and global stock market performance



We see the recent development as a possible major turning point as a new wave of value investors are now looking into Vietnam, just as we did 6-7 years ago. During the past 2 years all frontier markets were confronted with heavy redemptions leading to massive outflows in funds of all names and sizes. Not only Vietnam, but the whole frontier universe has seen selling pressure with even the biggest funds losing up to 80% of their assets. Naturally, these liquidations trickled through most individual stocks, as we have unfortunately also had such experiences in some of our stocks. While ETF investing compensated for the selling in index heavyweights, a lack of buyers in the rest of the market led to valuations which now are too cheap to ignore – something which also astonished us when we analyzed Vietnamese stocks for the first time in 2012/2013 with similar valuations as today.

Meanwhile, most companies have already reported their results for the final quarter of 2019 which showed overall good progress in our portfolio companies. With most full year earnings now available, we see amazingly undervalued stocks, something we can only dream of in developed markets. With an average P/E of just 7x and more than 10% of our holdings trading between just 2.5 to 5 times earnings, new investors are now discovering this value after an easing in trade tensions between the US and China. As soon as the selling from “old” investors stops, we should see big jumps in those stocks, similar to what we experienced between 2012 and 2014 when value stocks rose independently from the major indices. To visualize this tremendous value, we only need to look at the valuation of our current top 5 positions:

Name	P/E	P/B	div. yield
Agriculture Bank Insurance	5.0	1.4	3.6%
Vietnam Container Shipping	6.0	0.7	9.0%
Phu Tai	7.2	1.7	4.8%
Idico Urban & House Dev.	5.2	1.1	10.6%
Tan Cang Logistics & Stevedoring	6.0	0.8	10.0%

(Source: Viet Capital Securities, AFC Research)

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All stocks offer dividend yields between 4-10% with a strong balance sheet and tremendous re-valuation potential. We have to keep in mind that even after gaining 100% in these stocks, valuations would still be at a discount to the market while still trading with a decent dividend yield! This is exactly what we experienced in the last investment wave a few years ago when we were the “new” investors...

The reason for our underperformance in January against the main index (HSX) was the sell-off in small caps earlier in the month but as mentioned in previous reports, this index has a composition of mostly expensive banks and Vingroup-stocks. Despite very attractive valuations in the small- and mid-cap segment, many investors, including ETF's (which have no other choice), are still chasing the same few stocks, regardless of their high and unattractive valuations. Currently, just 31 companies out of more than 1,600 listed stocks have a market capitalization of more than USD 1 bln – and many of these 31 stocks only became “Unicorns” (companies with a market cap larger than 1 bln) due to their excessive valuations.

List of listed stocks by market cap (in USD million)

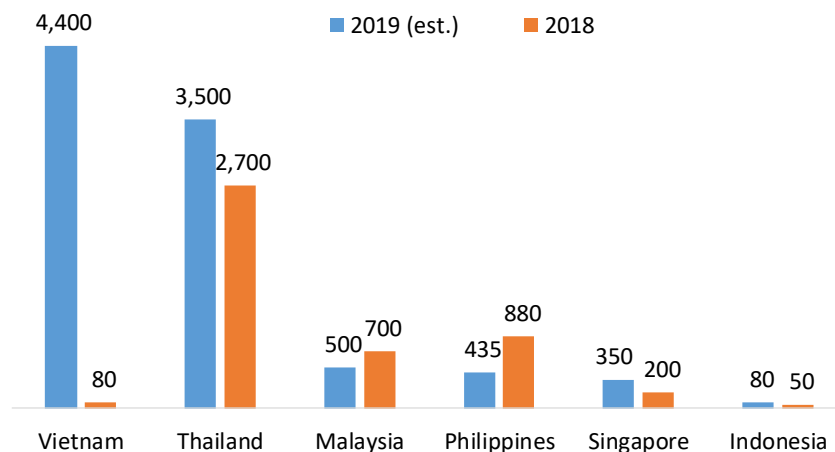
	<200	200-1000	>1000	Total
HSX	321	39	23	383
HNX	360	6	1	367
UPCOM	842	24	7	873
Total	1523	69	31	1,623

(Source: vietstock.vn, AFC Research)

Vietnam was getting more aggressive in solar energy in 2019

According to the ASEAN Post, Vietnam is the leading solar power country in South East Asia with a total installed capacity of 4,450 MW, comprising 44% of total ASEAN capacity. The Vietnamese Government is strongly promoting and supporting renewable power investments such as solar and wind power.

Solar installation process in ASEAN 2018-2019 (MW)



(Source: ASEAN Post, Renewables Now, IRENA, IEEFA)

However, the power industry is now facing challenges with insufficient power transition capacity. According to the Ministry of Industry and Commerce, the national power transition lines have only absorbed one third of total solar power capacity. Most of transition lines are overloaded and some key lines are operating at 360% of capacity. It is estimated that it will take years or even decades for Vietnam to build up and improve its power transition lines.

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There are very few investment opportunities in the green energy segment in Vietnam, but one of our companies, Sametel Corp (SMT) realized that this creates an interesting business opportunity for micro solar plants and therefore transformed its business from a fiber optic cable producer to a micro solar plant manufacturer. Within just a few quarters of restructuring its business, 80% of its Q4/2019 revenues were already generated from its new solar business and with a much higher profit margin than its former main business. Demand shifted from huge solar power plants with hundreds of MW capacity to supply micro solar power systems to the many factories in Vietnam which consume a lot of power and want to have their own small solar power panels on their factory roofs. These solar power systems not only help factories to reduce their power bills, but also generate revenue from selling excess electricity back to Electricity of Vietnam Group (EVN). SMT provides various services from consulting and solar power system installations. According to Mr. Canh, CEO of SMT, the company recently completed a 1MW project for a seafood factory in Soc Trang Province. This rooftop solar system cost around VND 17 bln and its lifetime is expected to be around 30-40 years with an investment payback period of around 8 years. One of the Vietnamese government's subsidies is that excess electricity from such factories can get a 20 year off-take agreement from EVN at a fixed price of USD 9 cents per kWh which compares to only USD 5 cents per kWh for hydro power plants.

SMT completed solar power project in Soc Trang Province

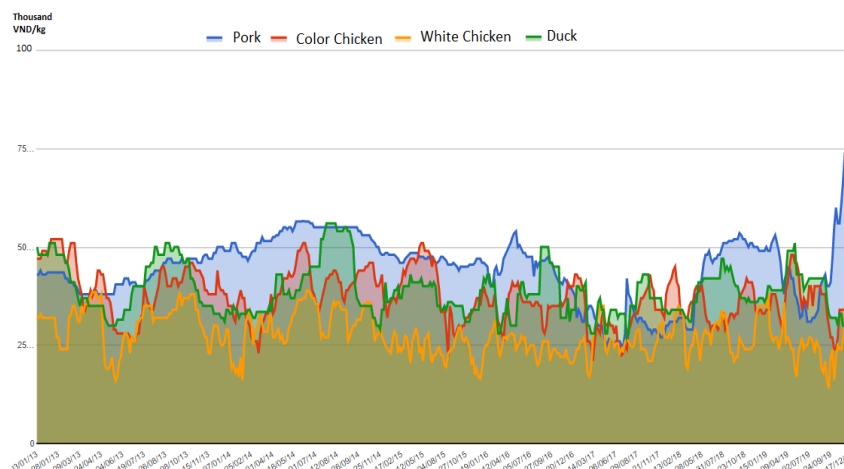


(Source: Sametel)

Tet holiday in Vietnam

Tet holiday, or usually called Traditional Lunar New Year, is the most important annual event for Vietnamese people. All family members will gather on the first days of the New Year to greet and send wishes and lucky money to each other. In order to prepare for Tet holiday, people bake a “Chung” cake, which is made from sticky rice with green bean and pork filling, wrapped in banana leaves and boiled for 24 hours. For the first time in many generations, this year’s “Chung” cake is prepared differently. Instead of using pork people used chicken or fish, due to the sky rocketing price of pork.

Livestock price (thousand VND/kg)



(Source: Vietnam Livestock Department, AFC Research)

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During the 2019 Tet holiday, pork prices were around VND 30,000 to 50,000 per kilogram, but this year, due to the African swine flu, prices in supermarkets around Ho Chi Minh City shot up to around VND 150,000 per kilogram, around 3 times higher than last year!

Traditional Chưng cake for Tet holiday



(Source: vnexpress, FPT Online, AFC Research)

Economy

Macroeconomic Indicators				
	2017	2018	2019	Jan-20
GDP	6.81%	7.08%	7.02%	7.02%
Industrial production (YoY)	9.4%	10.2%	8.9%	-5.5%
FDI disbursement (USD bln)	17.5	19.1	20.4	1.7
Exports (USD bln)	213.8	244.7	263.5	19.0
Imports (USD bln)	211.1	237.5	253.5	19.1
Trade balance (USD bln)	2.7	7.2	9.9	-0.1
Retail sales (YoY)	10.7%	11.7%	11.8%	10.2%
CPI (YoY)	2.62%	2.98%	5.23%	6.43%
VND	22,755	23,175	23,230	23,245
Credit growth (YoY)	17.0%	13.9%	12.1%	#NA
Foreign reserves (USD bln)	51	60	73	79

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

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Subscription

The next subscription deadline will be 24th February 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 January 2020

NAV	1,759*
Since Inception	+75.9%*
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	-1.7%*												-1.7%*

*According to internal calculations

**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.

By accessing information contained herein, users are deemed to be representing and warranting that they are either a Hong Kong Professional Investor or are observing the applicable laws and regulations of their relevant jurisdictions.

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