

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) Ltd., Cayman Islands
Investment Advisor	Asia Frontier Investments Ltd., 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 AV 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	Custom House, Singapore
Legal Advisor	Ogier, Hong Kong
ISIN	KYG0133A1673

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November 2017 will be probably remembered as the “craziest” month in Vietnam’s relatively young stock market history. Government auctions for leading companies, such as Vinamilk (a rather small placement of 3.33%) and Sabeco among others, got attention from financial and strategic investors which led to extreme gains in those stocks which are index heavyweights. While the government was not able to place all of their offered Vinamilk shares last year, they were able to sell them last month at a 30% higher price. Vinamilk is the stock with the highest weighting in the HCMC Index with 10.8%. The VN Index therefore rallied 13.5% last month. The Hanoi index was also able to gain substantially with 9.1%, while the market breadth only improved in the last few days of the month. According to internal calculations, the NAV of our fund currently stands at USD1,854 (+1.5%).

Vinamilk and the effect on the Index

The highest weighted stock in the Ho Chi Minh City Index, as well as in many other Vietnamese and Frontier market indices, Vinamilk (VNM), had an amazing run in November which helped push up the benchmark Index by 2.5%. The stock soared 23.6% in November from VND 151,000 per share to VND 186,700 per share. The market capitalization of Vinamilk therefore reached USD 11.9 billion, contributing 2.5% to the Index. Reason for that unusual jump was the USD 1 billion investment of Singapore based Jardine Cycle & Carriage (JCC). Not the investment itself, but the aggressive way the buying took place surprised the market participants and resulted in a short-term rerating of the stock. The story actually started back in December 2016, when the Vietnamese government announced their intention to divest a 9% holding of Vinamilk, equivalent to 130.63 million shares. At the time, the initial offering price was VND 144,000 per share compared to a market price of VND 135,000 per share. The interest at that price was very modest with only 60% of the total shares offered sold. Fast forward to early November, or just 11 months later, and the government announced their intention to divest another 48.33 million shares, equivalent to a 3.33% stake in Vinamilk. At that time the market price was VND 151,000 per share, while the minimum offer price for the 3.33% stake was set at VND 151,200. JCC ended up taking all 48.33 million shares offered at VND 186,000 per share; equivalent to a hefty 23% premium to the offering price (other offers were around VND 155,000!). In other words, JCC paid USD 73m more than the minimum buying price – a pleasant gift for the government of Vietnam. Furthermore, JCC continued to increase its stake to more than 10% by buying more shares on the open market. After that news was disclosed the market price closed the gap, but one has to ask himself why did JCC show no interest last year at a price which was 23% lower.

Other important investments where JCC holds 20-25% include Siam City Cement of Thailand and REE of Vietnam, a company we also hold in our fund and where JCC just announced their intention to raise their stake up to 24.99%.

First auction		12/12/2016	Second auction		10/11/2017
Total offered volume	shares	130,630,500	Total offered volume	shares	48,333,400
Initial price	VND	144,000	Initial price	VND	150,000
Successful price	VND	144,000	Successful price	VND	186,000
Sold volume	shares	78,378,300	Sold volume	shares	48,333,400
Successful rate	%	60.0%	Successful rate	%	100.0%

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Source: Viet Capital Securities

The successful divestment of the government in Vinamilk already affected other upcoming divestments such as Sabeco (SAB) and Habeco (BHN). Both stocks also jumped strongly in November by 15.4% and 40% respectively without any fundamental news, driven only by the announcement of the sale of a government stake. Vingroup (VIC), another index heavyweight with a market capitalization of USD 8.8bn had already been more expensive than the market for a long time and was moving sideways for most of this year until they announced the listing of their retail subsidiary, Vincom Retail (VRE), which is now trading at a lofty valuation of around 40x earnings. While this valuation is unattractive for value investors, momentum players on the other hand have pushed the stock price of the parent company up 75% over the past three months. At least the current valuation is a round number – with a P/E of around 100x!



Source: Viet Capital Securities

All this speculation affected the market massively and with this record monthly surge in the index the RSI is standing at an amazing high value of around 98 for about a week now, which means it is in extreme overbought territory. Of course, it hurts to see that market action during a time when the majority of stocks are heading sideways. On the other hand, we do

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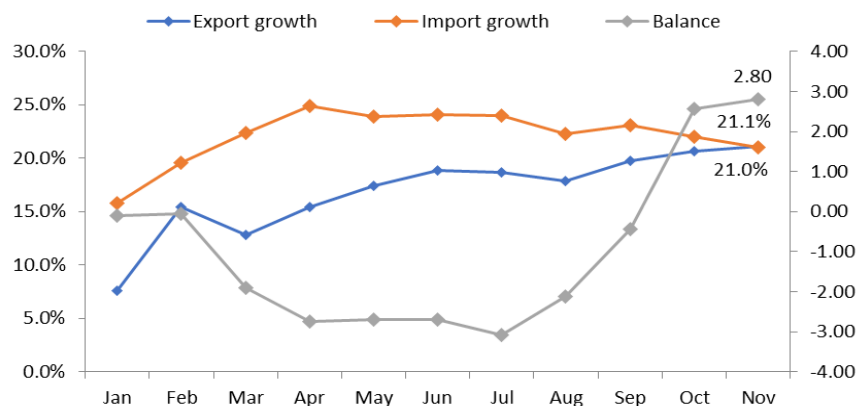
not see any reason to take the risk and chase already expensive stocks in the short term while we still see so many bargains in the overall market. Moreover, the Index is distorted by many big cap stocks such as ROS, VIC, SAB, VRE whose P/E's are currently 212x, 100x, 49x and 38x respectively! Because of those stocks, the Vietnam stock market looks relatively expensive at a P/E ratio of 18. According to our calculation, without the effect of these stocks, the Index valuation would still be attractive with a P/E of 14.7x, while the P/E of our portfolio is more than 30% below that at around 10x. In contrast, ETF's will consequently now have to overweight the most expensive stocks in the market - we can have much calmer nights of sleep with the valuation and diversification of our portfolio. In a long-term bull market, as we see in Vietnam, stock market leaders are changing in cycles and for the last 2-3 years big caps were favored over value stocks. Given the strong moves and high valuation of some of the bigger companies, the search for more attractive valuations by just a few investors would be sufficient for small caps to catch up with the market. Such a rotation always leads to very strong moves in smaller companies as history shows, with retail investors jumping onto the bandwagon. This is certainly a scenario we are hoping for!



Source: Viet Capital Securities

Vietnam trade surplus reached USD 2.8 billion in 11 months

Vietnam's trade surplus in the first 11 months of 2017 reached USD 2.8 billion. Export turnover growth accelerated month over month from 7.6% in January to 21.1% in November to reach USD 193.8 billion. The trade balance jumped from USD -3.0 billion to USD +2.8 billion. The momentum of this recovery and growth comes mainly from exports in mobile phones (+30.6%), electronics and computers (+38.1%), textile and garment (+9.5%) and machineries and equipment (+27.0%).

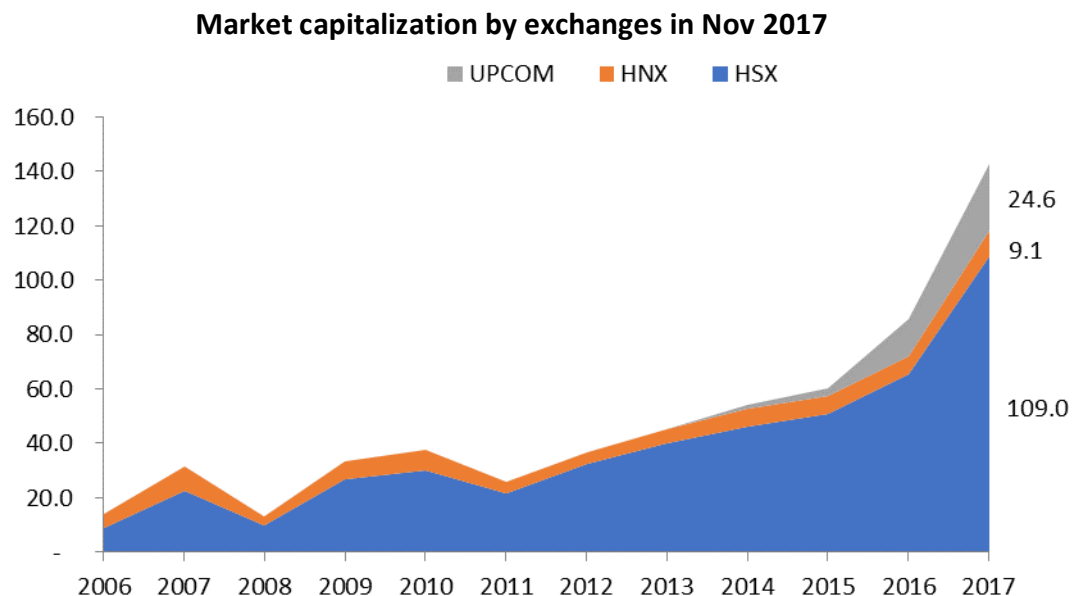


Source: GSO, AFC research

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UPCOM is no longer a sub-market

The Vietnamese stock market has three stock exchanges, Ho Chi Minh City (VN Index), Hanoi (HNX Index) and UPCOM (UpCOM Index). Most investors are familiar with HSX and HNX but most haven't heard about the UpCOM stock market. UpCOM is considered to be a sub-market of HSX and HNX where most OTC stocks are listed. However, the State Securities Commission (SSC) has raised the profile of UpCOM significantly. Quite a few of the state-owned companies will be listed on UpCOM after privatization. Therefore, the total market capitalization of UpCOM has risen sharply over the past 3-4 years and has surpassed the Hanoi Stock Exchange. At the end of November 2017, the market cap of UpCOM reached USD 25.1 billion, compared to USD 9.1 billion for the Hanoi Stock Exchange and USD 109 billion for the Ho Chi Minh City Stock Exchange.



Source: Viet Capital Securities, AFC Research

At the moment there are 667 listed stocks on the UpCOM market, compared to 346 stocks on HSX and 381 stocks on HNX. There are 3 stocks whose market cap has surpassed USD 1 billion, ACV (Aviation Corporation of Vietnam), HVN (Vietnam Airlines) and MCH (Masan Consumer Corporation).

Economy

Industrial production growth accelerated to 9.3% in November, much higher than 7.4% in the same period last year.

Exports showed impressive growth of 21.1% in November, reaching USD 193.8 billion. Imports also increased 21% to USD 191 billion.

FDI (Foreign Direct Investments) registrations reaching a record high of USD 33.1 billion, jumping 53.4% compared to same period last year, while FDI disbursement increased to USD 16 billion, +11.9%.

Credit growth hiked to 13.5% and foreign reserves continue to rise to a new record high of USD 46 billion in November 2017.

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Macroeconomic Indicators					
	2013	2014	2015	2016	Nov-17
GDP	5.42%	5.98%	6.68%	6.21%	6.41%
Industrial production (YoY)	5.90%	7.60%	9.80%	7.50%	9.30%
FDI disbursement (USD bn)	11.5	12.4	14.5	15.8	16.0
Exports (USD bn)	132.2	150	162.4	176.6	193.8
Imports (USD bn)	131.3	148	165.6	174.1	191.0
Trade balance (USD bn)	0.9	2	-3.2	2.52	2.80
Retail sales (YoY)	12.60%	10.60%	9.50%	10.20%	10.7%
CPI (YoY)	6.03%	1.86%	1.34%	4.74%	2.62%
VND	21,125	21,405	22,540	22,600	22,755
Credit growth (YoY)	12.50%	14.00%	17.30%	16.50%	13.50%
Foreign reserves (USD bn)	32	36	36	41	46

Source: Viet Capital Securities, AFC Research

Subscription

The subscription deadline for this month will be the 21st December and if you would like any assistance with the investment process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

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Estimated NAV as of 30th November 2017

NAV	1,854*
Since Inception	+85.4%*
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%	+1.5%*		+13.3%*

*According to internal calculations

**The representative of the Fund in Switzerland is Hugo Fund Services SA, 6 Cours de Rive, 1204 Geneva. The distribution of Shares in Switzerland must exclusively be made to qualified investors. The place of performance and jurisdiction for Shares in the Fund distributed in Switzerland are at 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.*

DISCLAIMER

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