



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

The unusual index movements continued for the first two trading days before the expected correction set in. At the low on Tuesday, the HCMC index lost 8% before buying set in and the index settled with a loss of -1.6% after the first two weeks of December. On the northern bourse in Hanoi the index lost -2.6%. Our portfolio was also affected but to a lesser extent as we do not hold any of the expensive and currently volatile index heavyweights which were driving up the market recently. According to internal calculations, our NAV is currently USD 1,826 (-1.5%).

Market developments

As one would expect, corrections were strongest in the stocks which gained the most in recent weeks and the market is now trying to find a new base. Practically all sectors were dragged down in this market weakness, but we have to look beyond the current volatility, which has mainly been driven by news around the Sabeco (SAB) privatization. We actually like the deep discount which smaller companies offer right now in comparison to the rich index valuations. The attractiveness of second and third tier stocks is becoming more and more obvious, even for index oriented investors. Not only that, but the absolute valuation of many of the big cap stocks is somewhere between 20x and 50x earnings but many don't even offer what are probably two of the most important attributes investors are looking for in order to gain over the long term – growth and dividend yield.

SAB for example, which we will discuss further below, offers a dividend yield of just 0.94% and is expected to grow by a mere 1.09% in 2017. In contrast, the six companies with the highest dividend yield in our portfolio currently offer yields of between 9.5% and 11.6% and boast an average PE of just 8.1x!

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Stock	Div. yield*	Market cap [m USD]	PER	PBR	Payout ratio
FMC	11.6%	40	7.0	1.6	74%
LPB	11.3%	424	6.5	1.0	37%
GDT	11.2%	35	6.7	3.0	93%
NNC	10.1%	50	5.9	2.3	72%
NCT	9.7%	119	10.3	7.3	97%
DPM	9.5%	364	12.3	1.0	100%

Source: AFC Research, Bloomberg

* expected 2017 dividend yield

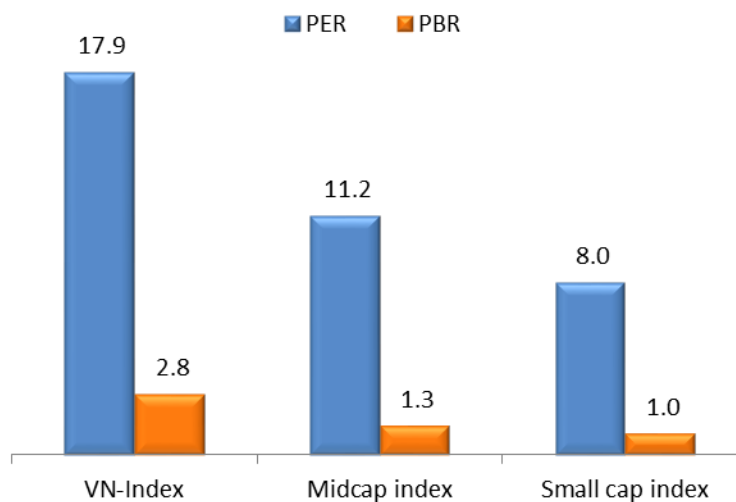
The VN-Index increased sharply over the last two months due to a few special situations in some large caps, such as Vinamilk (VNM), VIC and VRE. According to Bloomberg data, the Vietnamese stock market looks much more expensive than at the beginning of the year and now has a PER (Price/Earnings Ratio) of 18 and a PBR (Price/Book Ratio) of 2.8. This is still lower than the two other growth markets in Asia, the Philippines with a PER of 21.8 and a PBR of 2 and Indonesia with a PER of 22 and a PBR of 2.4.



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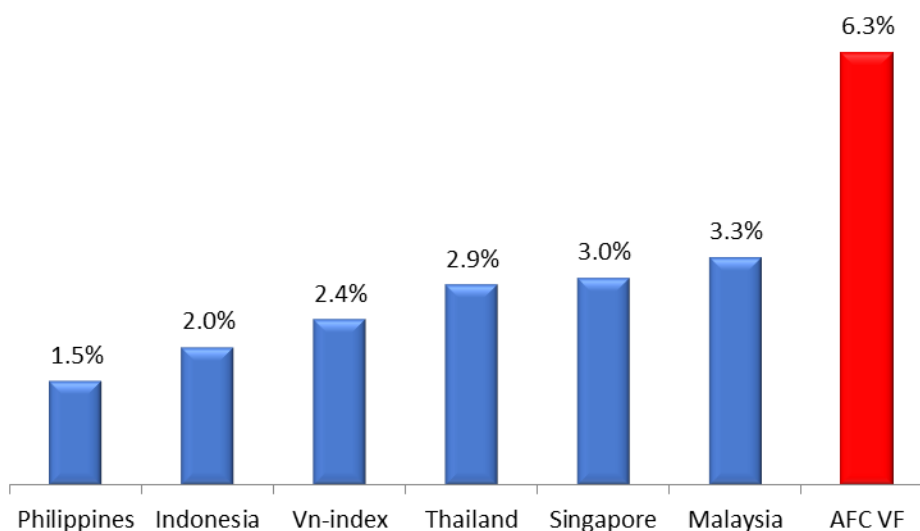
Analyzing the valuation of the Ho Chi Minh Index (VN-Index) further we see that only 4 stocks (ROS, VIC, SAB and VRE) contributed 4.5% to the index performance in November and hence also pushed the overall valuation up considerably over the last few months. As mentioned in our previous report, these 4 stocks are incredibly expensive and now have P/E's of 172x, 83x, 46x and 40x. Without these four stocks, the PER of the VN-Index would be around 15, which is still very inexpensive for such a fast-growing market. It is interesting to note that the top 10 largest stocks out of the 347 listed constitute over 56% of the total market cap of the VN-Index.

If, however we analyze the smaller and medium size companies, then we find that the small cap index trades at a PER of only 8 and a PBR of 1 and the mid cap index on a PER of 11.2 with a PBR of 1.3.



Source: AFC Research, Bloomberg

Our Vietnam fund has an average PER of 10, while we have relatively high dividend yield of 6.3% which is much higher than any other regional market.



Source: Bloomberg

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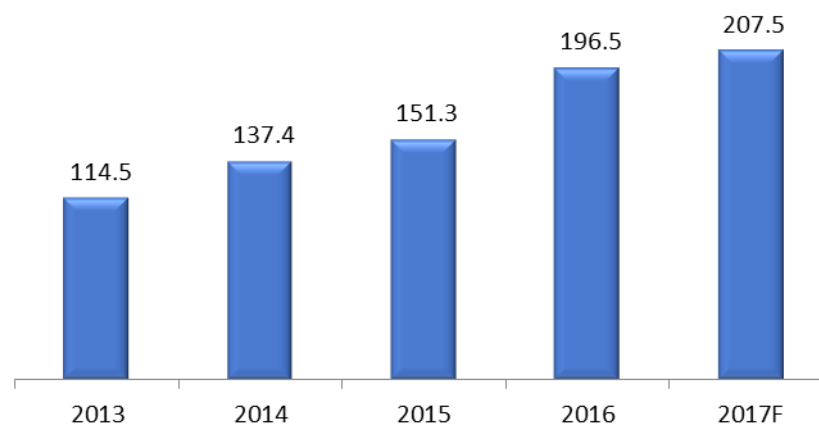
SABECO update

On 11th December 2017, the Ministry of Industry and Commerce of Vietnam announced the sale of 574.5 million shares (equivalent to 53.59%) of SABECO, the largest beer brewery in Vietnam with a 40% market share. The initial offering price stands at VND 320,000 per share, compared to the current market price of VND 309,000 per share. At this price, the company is valued at USD 9 billion with a PER of 46x. According to the Ministry of Industry and Trade, Vietnam Beverage Company Limited, a company in which Thai Beverage owns 49%, has registered to buy at least 25% of SABECO in the upcoming auction on 18 December. Vietnam Beverage, which was registered as a local company in Hanoi with a chartered capital of USD 30 million (VND 682 billion).

On 13th December, the local media reported that Vietnam Beverage officially increased their total bid to 51% stake of SABECO, equivalent to USD 4.5 billion at the initial offering price. (The official auction deadline is 4.00pm local time on 15th December)

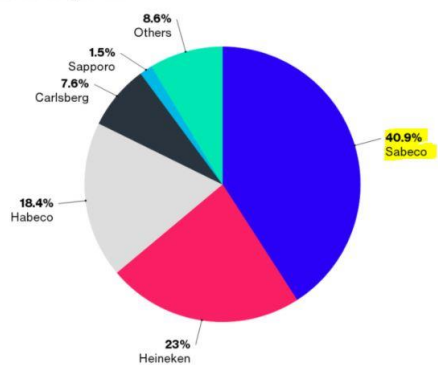
According to Ministry of Industry and Commerce, foreign investors are allowed to buy only a maximum 49% stake of Sabeco. But since Thai Beverage set up a local company in 2017, they are eligible to buy the desired stake of 51%.

Net profit of SABECO (USD million)



Source: VCSC, SABECO, AFC Research

Carving Up Vietnam's Beer Market
Share of 2016 sales by volume



Source: Euromonitor International from trade sources/national statistics

Bloomberg

Lager Quaffers

Per-capita beer consumption in select markets



Data for 2011-2016 are estimates; 2017-2021 are forecasts
Source: Euromonitor International

Bloomberg

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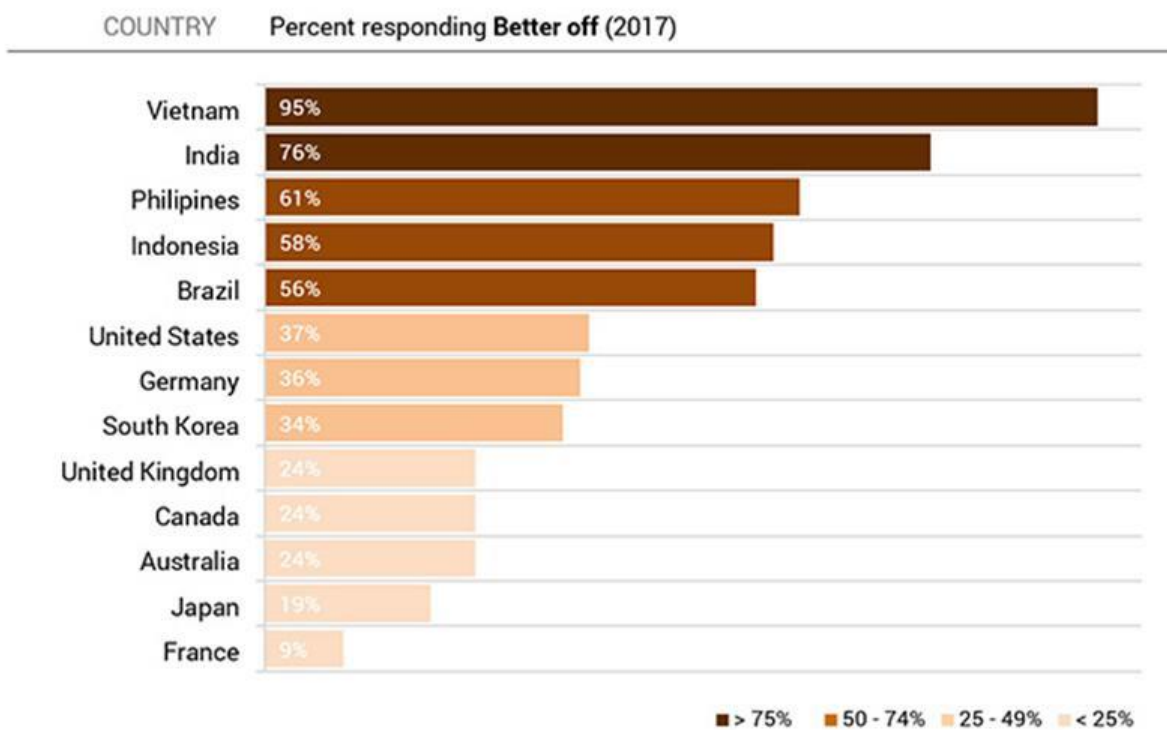
Economy

The ADB has revised up its GDP growth forecast for Vietnam to 6.7% in both 2017 and 2018, compared to previous forecasts of 6.3% and 6.5%, respectively, citing a good recovery and momentum of the local economy

Also, the World Bank has revised its 2017 growth forecast for Vietnam upward to 6.7% from the previous projection of 6.3%.

At this level, Vietnam and the Philippines are the two fastest-growing economies in Southeast Asia.

When Children Today Grow Up, Will They Be Better Off Financially than Their Parents?



Source: *Pew Global Survey*

www.stansberrychurhouse.com

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 15th December 2017

NAV	1,826*
Since Inception	+82.6%*
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%	-1.5%*	+11.6%*

*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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