

## 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 60 days notice
<b>Benchmark</b>	VN Index
<b>Fund Manager</b>	Vincente Nguyen
<b>Investment Manager</b>	Asia Frontier Capital (Vietnam) Ltd., Cayman Islands
<b>Investment Advisor</b>	Asia Frontier Investments Ltd., 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 AV 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>	EY, Hong Kong
<b>Administrator</b>	Custom House, Singapore
<b>Legal Advisor</b>	Ogier, Hong Kong
<b>ISIN</b>	KYG0133A1673

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The highlight of the first half of December was the long-awaited listing of the biggest brewery company Sabeco, which had a very nice run against the trend, while the broader market had a tough time. Despite Sabeco's heavy index weight, the HCMC index was unchanged and the index in Hanoi declined by 2.6%. Due to a strong correction in the small and mid-cap segment our fund also got affected and according to internal calculations the NAV lost about 3.3% to USD 1,610.

### Market developments

The closely watched and newly listed blue chips are welcomed by everybody but at the same time also create quite a headache for institutional investors. These shares are not sold to investors before the actual listing date like in most other parts of the world. The procedures in Vietnam are to list them at a reference price with existing shareholders. That means that the free float and trading in those stocks are often negligible until current shareholders are willing to sell their holdings. This is not really a big issue in smaller stocks, but it is a big problem when blue chips are listed, especially for fund managers who are trying to track or outperform the index. As for example, when Sabeco, the biggest brewery company, recently listed, it was immediately part of the HCMC index, and hence it had a big impact on the index movement. The stock increased by 80% in the first 7 trading days alone, on an extremely low volume of only 300,000 shares (a total of USD 50,000 turnover in the first four days only, which usually would be the days with the highest turnover in Western style IPO's). Sabeco therefore "falsified" the index performance by approximately 3.1% over the past few days. Fund managers were unable to buy this stock – a blue chip with almost a similar weighting as Vinamilk – in the first few trading days and therefore couldn't track the index closely. We are once again happy that we do not have to worry too much about those things, given that we are a value investor and not an index hugger, but nevertheless it is annoying to watch and explain those irregular index movements.

The Hanoi index is once again trading at a major support level, and we expect that it will turn on the upside from here.



Source: Viet Capital Securities; stockbiz.com



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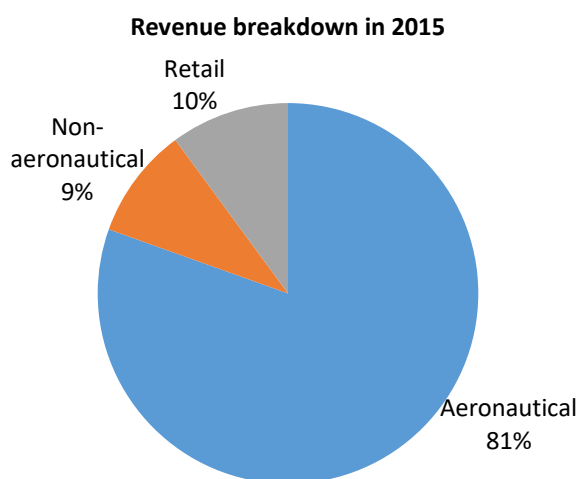
In the second week of December, fund manager Vicente Nguyen visited 12 of our holdings in Hanoi, Hai Phong, Danang and Hue City. Most of the companies are in our view still very undervalued with an average PER of 8, but we will write more about some of these stocks in our December month end report.

### Airport Corporation of Vietnam (ACV)

The unique airport operator in Vietnam, Airport Corporation of Vietnam “ACV” listed on UPCoM on 21<sup>st</sup> November. The stock traded at a high of VND 44,000 on 23<sup>rd</sup> November. At VND 44,000 per share, ACV values at 56.7x P/E and 4.4x P/B.

The company was founded in 1976 as a 100% state owned company before it was privatized in 2015. The Ministry of Transportation of Vietnam is the largest shareholder with a stake of 75%. ACV operates and manages all 22 civil airports in Vietnam (7 international and 15 domestic) and has a monopoly business in Vietnam. The three major business lines are:

- Aeronautical: fee income from airlines, passengers and other users of airport’s facilities
- Non-aeronautical: rental and other income from commercial activities conducted by the airports such as leasing of spaces to restaurants and retailers.
- Retail: direct sales to passengers at the airports

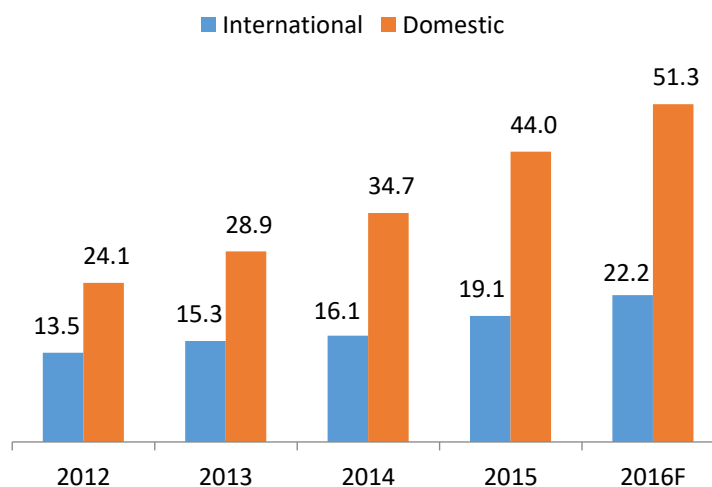


*(Source: ACV prospectus)*

Vietnam is one of the fastest growing countries in the world in the aviation industry. In the last three years, total aviation passengers grew by 18.8% per annum to hit 63.1 million passengers in 2015 and it is expected to grow 16.5% in 2016 to reach 73.5 million passengers. With a population of 92 million people (60% is under 35 years old), demand for travel by air is increasing sharply. Furthermore, Vietnam’s thriving economy stimulates its aviation industry but it is rapidly becoming a popular tourist destination.

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### Aviation passengers (million)



Source: Ministry of Transportation of Vietnam

### ACV financial key factors

Items (VND bn)	2012	2013	2014	2015
Revenue	8,011	9,548	10,555	10,871
Gross profit	1,619	2,097	3,009	2,569
Operating profit	1,932	3,126	3,273	2,028
Net profit	1,510	2,301	2,511	1,647
Owner equity	14,785	16,978	19,834	19,767
Total assets	30,087	34,661	43,692	43,314
ROE (%)	10.2%	13.6%	12.7%	8.3%
ROA (%)	5.0%	6.6%	5.7%	3.8%

(Source: ACV audited financial reports)

## Economy

### November Credit growth

The State Bank of Vietnam announced that the total credit balance grew 14.6% in the first eleven months of this year. Local currency credit growth increased by 15.8% and foreign currency by 3.5%. The State Bank expects that credit growth in the last month will strongly increase, given that local enterprises will need financing to buy goods in anticipation of the increased year end demand ahead of the Tet holidays. A strong credit growth will of course have a positive impact on the overall economy.

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### November PMI

The Purchasing Manager Index (PMI) of Vietnam improved further in November and closed at 54.0 from 51.7 in October. It shows a strong improvement of manufacturing sector over the past 18 months.



The number of new orders also increased sharply in November, leading to the strongest monthly increase since May 2015.

A representative of Markit mentioned: “The number of new orders saw one of the strongest growth in November, providing a boost to the manufacturing sector. Consequently, it has a very positive impact on new jobs and export related purchases. We expect that manufacturing will keep growing rapidly in December, and according to our estimates, the 2017 GDP could reach 6.3%. However, inflation might increase in December and hence have a negative effect.”

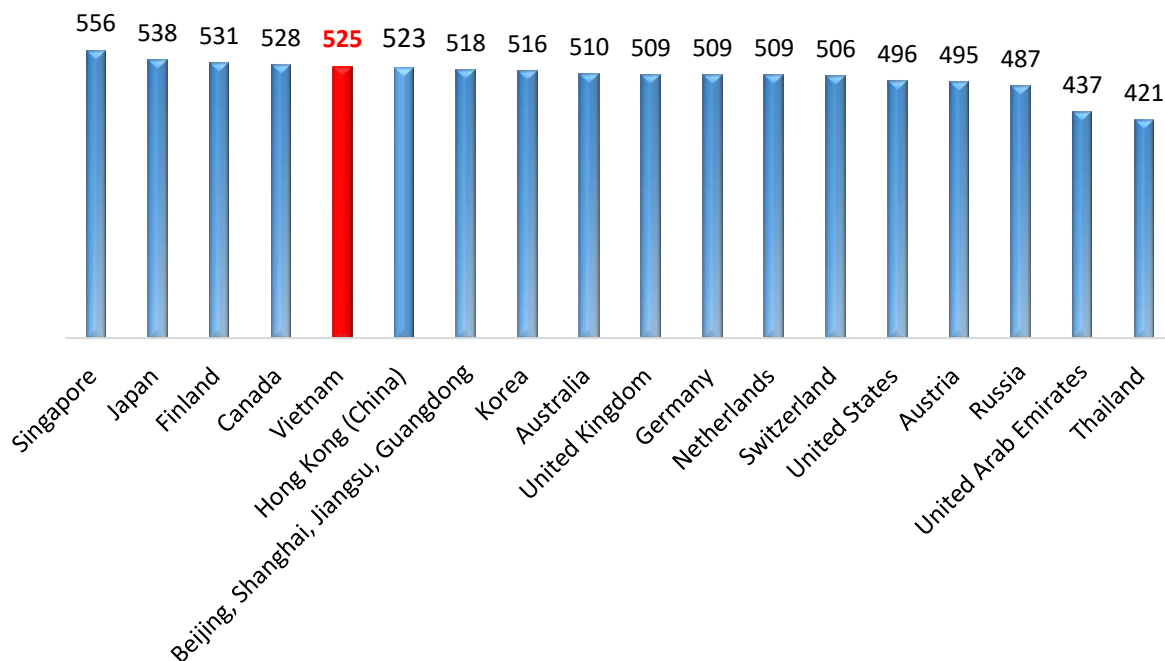
### Other developments

The Vietnamese government successfully placed 5.4% of its Vinamilk holdings at VND 144,000 per share to Fraser & Neave, raising USD 500 million. F&N is now the largest shareholder of Vinamilk with 11% after the government. Consequently, SCIC completed selling 60% of total offered volume.

Recently we have seen the publication of the latest PISA education study. Vietnam showed once again an impressive result, ranking right between countries like Finland, Canada and Hong Kong, far ahead of other emerging markets, with whom they directly compete economically. We regard this as one of the main arguments that should guarantee the relative outperformance of Vietnam over the long term.

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### PISA 2015 - mean score of Mathematics, Reading & Science



Source: [OECD](#)

We saw quite a few stocks with strong selling pressure over the past few days. Similar to previous pullbacks, we started adding to our position in a few selected shares which retreated by 30-50% since the market top in early July and are now trading at only 5-6x earnings. We have seen this kind of opportunities several times before, given that Vietnam easily reacts to rumours. It is interesting to note that the Vietnam ETF is now trading close to its 5 year low from early 2016, but we are using this opportunity to add to our existing holdings which should help to outperform the market again in the next upturn.

#### Subscription

The subscription deadline for this month will be the 23<sup>rd</sup> December and if you would like any assistance with the investment process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

# AFC VIETNAM FUND UPDATE

## Estimated NAV as of 14<sup>th</sup> December 2016

NAV	USD 1,610*
Since Inception	+61%*
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%	-3.3%*	+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.*

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