

## 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 30 days notice
<b>Benchmark</b>	VN Index
<b>Fund Manager</b>	Vicente 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>	Ernst & Young, Hong Kong
<b>Administrator</b>	Custom House, Singapore
<b>Legal Advisor</b>	Ogier, Hong Kong
<b>ISIN</b>	KYG0133A1673

After the correction at the beginning of the month, a few selected index heavy weights such as Vinamilk (+6%), FLC Faros (+33%) and VCB (+18%) rallied strongly over the last two weeks and brought the index in HCMC to a monthly gain of +3.6%, while the broader market was almost unchanged. Banks and petrochemical stocks were the reasons for the index gain in Hanoi of +1.9%. Our fund portfolio also recovered from the losses earlier in December and closed the month slightly up at USD 1,855 (+0.1%), according to internal calculations.

### Market Developments in 2017

The first few years following the big bear market of 2007-2012 saw a revaluation of the completely oversold and undervalued stock market. This was especially true of small and mid-caps which were extremely undervalued and thus showed a nice recovery from a very low base. Fast forwarding to 2016, the year showed a more balanced advance in stock prices, while the long-awaited wave of privatizations started to accelerate in 2017. This was the year that foreign interest in new listings and auctions in state owned enterprises took off as brand names entered the market and foreign strategic investors replaced (often absent) value investors as the major buyers during the year. Other investors jumped onto this bandwagon and revalued many of those companies with heavy weights in the index such as Vinamilk, Vincom and Sabeco.

In 2017, Vietnam became the most successful IPO market in the region with equities worth more than USD 7 billion (including Government divestments) successfully placed with investors.

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Winner Relative Value: AFC Vietnam Fund



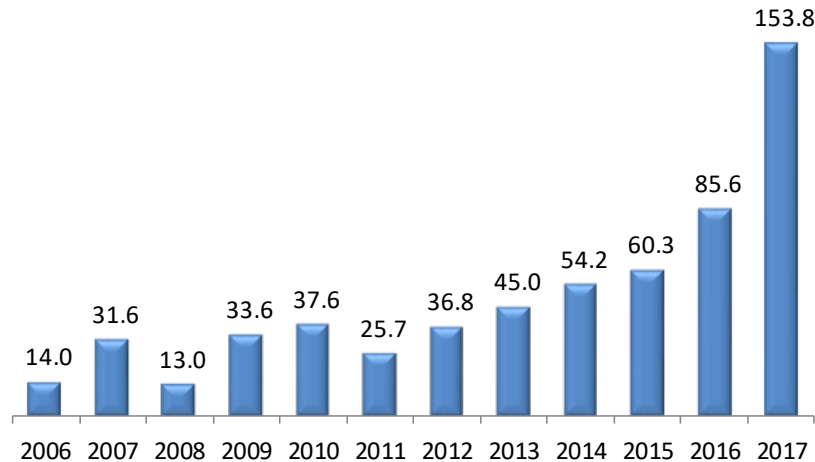
### Significant IPO deals in 2017

No	Company	Value (USD million)	Note
1	Sabeco	4,834	Government divestment
2	Vincom retail	743	IPO
3	Vinamilk	395	Government divestment
4	VPBank	381	IPO
5	HDBank	300	IPO
6	Vietjet Air	189	IPO
7	FPT retail	130	IPO
8	DIG Group	108	IPO
<b>Total</b>		<b>7,080</b>	

Source: Viet Capital Securities, AFC Research

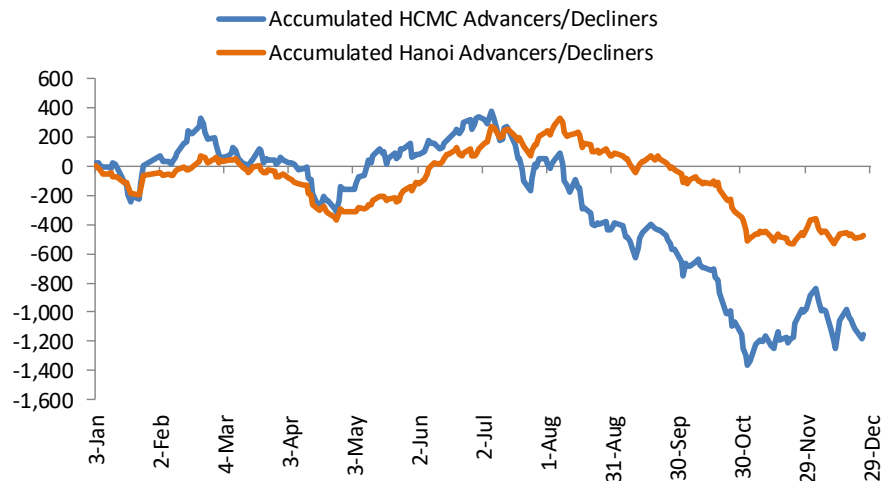
## AFC VIETNAM FUND UPDATE

Vietnamese stock market capitalization 2006-2017 (USD billion)



Source: Bloomberg, VCSC, AFC Research

The market capitalization of the Vietnamese stock market increased by almost 2/3, from USD 85.6 billion to over USD 149 billion during the calendar year. Meanwhile, most market participants were focused on only a few stocks, ignoring the majority of the smaller and mid-sized stocks which didn't perform at all in 2017, despite much lower valuations. By the end of the year the discount of small and mid-caps relative to the average index valuation widened from 35% to almost 50%, a valuation gap we have not seen since the lows a few years ago.



Source: Bloomberg, AFC Research

Government divestments were certainly positive for the development of Vietnam's financial markets as the country has received more attention from international investors. Talk of an MSCI upgrade of Vietnam from a frontier market to an emerging market added positive momentum, especially from institutional investors. However, an actual upgrade is likely to take some time.

## AFC VIETNAM FUND UPDATE

For valuation reasons, we are not trying to chase the very expensive index heavy weights such as VIC, ROS or SAB - no matter if they were recently driven by pure market speculation or surmises of M&A activity. Their bitcoin-like volatility has given us yet another reason to remain on the sidelines. Sabeco for example, which has the 5<sup>th</sup>- highest weight in the main index, showed price swings unlike any of the 70+ stocks in our portfolio.



*Sabeco Q4/2017; Source: Viet Capital Securities*

After the Government divestment plan was announced, the stock price of SAB jumped from VND 260,000 per share in October and peaked at VND 347,000 per share in late November, which pushed up the index strongly. After the divestment, SAB dropped by around VND 100,000 within 3 weeks.

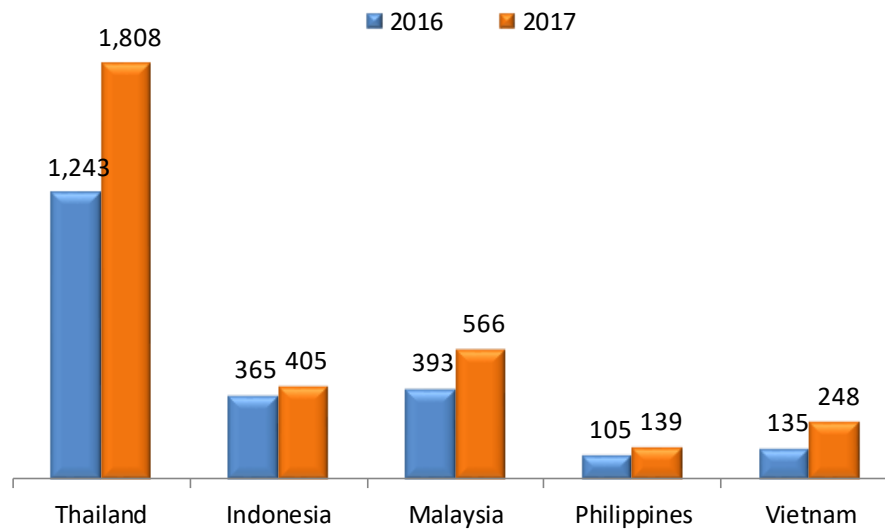
2017 was absolutely not the year for investments outside of those “story driven stocks”. Of course, that is not what we like to see as value investors, as our portfolio did not move very much in the second half of the year when we saw expensive stocks get more expensive and cheap stocks get cheaper. While this is frustrating to watch at the moment, we continue to look at the fundamentals where we see great value instead of playing momentum in questionably valued stocks.

On the other hand, we are also looking at nice developments within our portfolio. The five best stocks in our portfolio gained by 102%, 59%, 56%, 56% and 56% in 2017. That compares to 84% (VIC), 81% (MBB), 80% (BID), 68% (REE) and 66% (VNM) as the biggest winners of the VN30-index. While the index valuation rose drastically over the past 12 months, our portfolio valuation moved sideways despite performing +13.4%.

## AFC VIETNAM FUND UPDATE

### Liquidity strongly improved

The liquidity on the Vietnamese stock market also strongly improved, with the average daily trading value (ADTV) increasing from USD 135 million in 2016 to USD 248 million in 2017, +84%, surpassing the Philippines (USD 139 million).

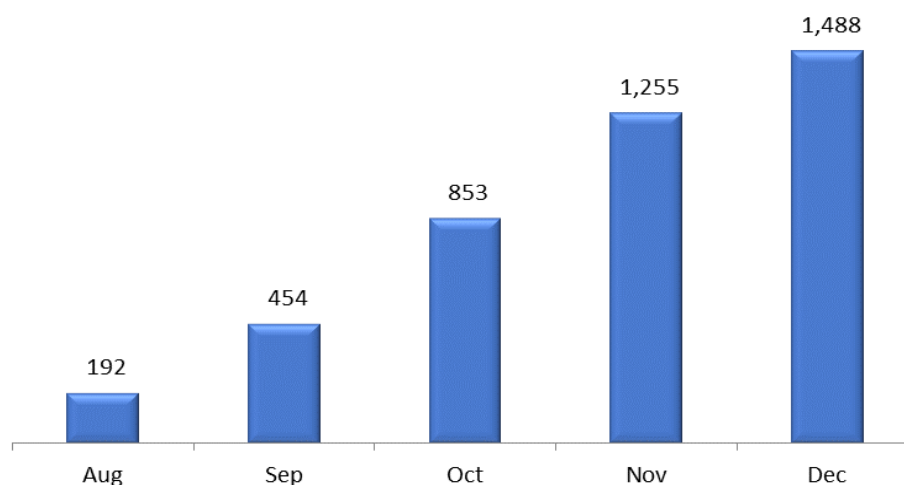


Source: Bloomberg, AFC Research

### Derivative Market

In August Vietnam launched a derivatives market in a bid to draw more investments into its capital markets. Since then, the number of contracts and trading value have grown strongly every month, from 58,444 contracts in August and a value of USD 192 million to 357,612 contracts, valued at USD 1.5 billion in December. The derivatives market in Vietnam is still in its infancy and very limited, but we strongly believe that it will grow fast in the coming years as we have seen in other markets around the world.

### Monthly derivatives trading value (USD million)

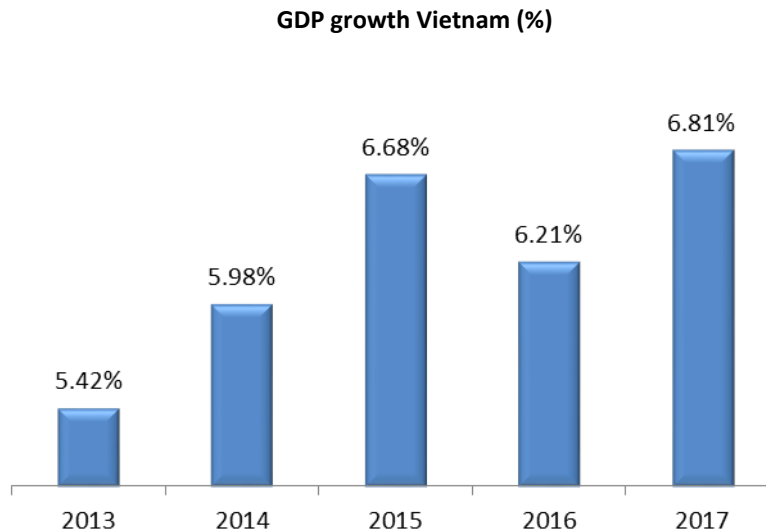


Source: HNX, AFC Research

## AFC VIETNAM FUND UPDATE

### Economy had an impressive recovery

The economy showed impressive strength in 2017 with GDP growth increasing from 6.2% in 2016 to 6.81% in 2017, the highest since 2011. The largest driver of this growth came from the industrial sector which jumped to 9.4% in 2017 from 7.4% in 2016.



*Source: GSO, AFC Research*

### Outlook for 2018

According to the Vietnamese Government, the economy is expected to grow at 6.7% in 2018, similar to the Asian Development Bank which has revised upward its GDP growth forecasts for Vietnam to 6.7% in both 2017 and 2018, compared to its previous forecasts of 6.3% and 6.5%.

On the stock market, we do not see a much longer continuation of the trend from 2017 where index heavyweights led the market. With higher valuations the opportunities for both private equity investors and buyers in the IPO market will become more difficult as sellers will adjust their selling price expectations accordingly. We still see a couple of interesting bigger deals in the primary market pipeline, but minority sales in the energy sector are certainly less “sexy” than airlines or breweries for example.

Many stocks which have driven the index in 2017 are trading at high earnings multiples of 25x-100x. Sometimes it is hard to explain to investors that earnings and valuation have a strong impact on the future potential in the long run when multiples are going from 20x to 30x-40x or more, where history has shown that the risks outweigh any short-term potential. Our top 5 holdings are expected to grow their earnings in 2017 by an average of around 30% and are trading at only 9.8x earnings. To double the price of Sabeco for example, which is expected to grow less than 10% in 2017, the P/E would have to rise from 38 to 76. In comparison, our largest holding, ABI, would have to double in price to merely trade at the still attractive P/E multiple of 10x.

Like all other market participants, we do not know today what 2018 will bring for stock markets around the world, including Vietnam, but we are trying to position ourselves to get the best long-term risk/reward ratio for our investors.

## AFC VIETNAM FUND UPDATE

### Economy

Vietnam's GDP growth in 2017 has beaten all forecasts, reaching 6.81%, the highest growth rate since 2011. Industrial production growth has also seen a strong improvement and grew at 9.4% compared to 7.4% in 2016.

FDI registration and disbursement both reached a record high at USD 29.7 billion (+44.2%) and USD 17.5 billion (+10.8%), respectively.

The trade surplus recorded a new high of USD 2.67 billion. Export turnover continued to increase strongly to USD 213.8 billion (+21.1%), meanwhile imports were up 20.8% to USD 211.1 billion.

Foreign reserves jumped sharply and reached a new record high of USD 51 billion thanks to the successful government divestment of Sabeco, worth USD 4.8 billion, and strong FDI inflows.

CPI was below the government's target, at 2.6% YoY, and credit growth in 2017 reached 16.96%.

Vietnam is estimated to have attracted nearly 12.9mn foreign tourists in 2017, up 29.1% year over year

Macroeconomic Indicators					
	2013	2014	2015	2016	2017
GDP	5.42%	5.98%	6.68%	6.21%	6.81%
Industrial production (YoY)	5.90%	7.60%	9.80%	7.50%	9.40%
FDI disbursement (USD bn)	11.5	12.4	14.5	15.8	17.5
Exports (USD bn)	132.2	150	162.4	176.6	213.8
Imports (USD bn)	131.3	148	165.6	174.1	211.1
Trade balance (USD bn)	0.9	2	-3.2	2.52	2.67
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%	16.96%
Foreign reserves (USD bn)	32	36	36	41	51

Source: Viet Capital Securities, AFC Research

# AFC VIETNAM FUND UPDATE

## Subscription

The subscription deadline for next month will be the 25<sup>th</sup> January and if you would like any assistance with the investment process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

### Estimated NAV as of 31<sup>st</sup> December 2017

NAV	1,855*
Since Inception	+85.5%*
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%	+0.1%*	+13.4%*

\*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.*

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