

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

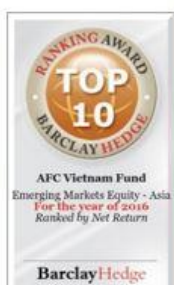
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The strong upward trend in Vietnamese equities continued during the first two weeks of the year. Although no major shift was seen in investor's favorite stocks, at least the broader market stabilized. The indices of HCMC and Hanoi were up 8.0% and 4.4%, while the NAV of our fund increased by 2.1% to USD 1,893, according to internal calculations.

Market Developments

After the stellar performance of the HCMC index by around 48% in 2017, although very unevenly distributed, most market participants and analysts are calling for another good year in 2018. Naturally, and not only in Vietnam, investors are looking for a continuation of current trends and refuse to believe that trends can change, just as they did not believe in the end of the bear market in 2012/13 when many stocks were trading at extremely depressed valuations. With estimated earnings growth of 19-20% in 2017, stocks were rerated tremendously from an average of 11.4x earnings at the end of 2015 to 19.3x earnings at the end of 2017. While this rerating might be true for the stocks which were weighted heavily in the index, many if not the majority of stocks did much worse and ended up either without any or very little gains in 2017. In Vietnam this could simply be explained by the interest of local and foreign investors in new listings and government divestments of brand names in the food and beverage sector. However, we would like to look outside Vietnamese to explain that phenomenon in a little further detail.

2017 was one of the worst years ever on a global basis for the relative performance of value stocks versus growth stocks. As we can see below, Emerging Market growth stocks outperformed value stocks massively over the past few years and are now trading 50% above their average 20-year long-term trend, while value stocks rerated only marginally. History also shows that rising long term rates are unfavorable for growth stocks versus value stocks as their high valuations make them more vulnerable to more attractive alternatives such as bonds or high yielding stocks.

Figure 27. Fwd PE for EM Growth Basket



Source: Citi Research

Figure 28. Fwd PE for EM Value Basket



Source: Citi Research

While we certainly would count ourselves into the camp of value investors, we are looking continuously for growing companies in Vietnam. As mentioned in our last report, the average earnings growth rate in 2017 of our top 5 holdings is estimated to be higher than the average of the market, while their valuation is 50% lower! Earnings season is starting right now so we will soon find out how cheap our portfolio really is in comparison to the market, but first pre-announcements were very positive. We believe that investors will look for cheaper stocks in 2018 and will shift some money into the much cheaper segment which is offering similar growth rates, but with much less risk.



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We would also like to share another interesting thought about the recent shift out of value stocks and into index stocks. For some time now, we have seen continued selling from both institutional and individual investors in heavily undervalued stocks which did not perform throughout 2017. Like so many times in history, so called long-term investors are getting impatient and sometimes greedy. Since these investors had certain reasons to invest into those stocks – most likely because they were value investors – they are now abandoning their strategy and selling into an already oversold market in those stocks in order to look for other opportunities. Many of those stocks under selling pressure are now trading with single digit earnings valuations despite good growth and dividend yields.

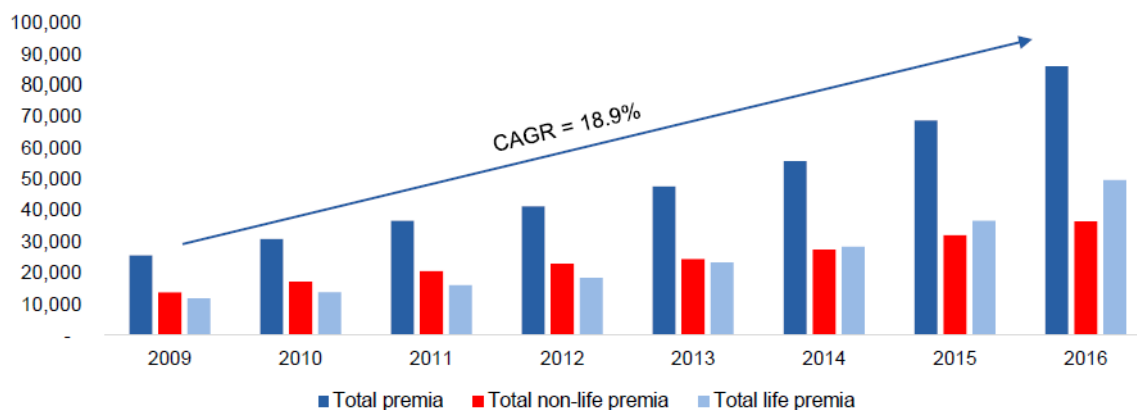
As for every seller in the market there is also a buyer and it is interesting to see that the management of some of our companies buying their own shares in the market at current levels. Others are making huge cash dividend distributions such as one of our holdings which just announced a cash dividend of VND 4,500 per share while it trades at a price of VND 24,600. This equates to a dividend yield of over 18%! Of course, we also see some local and international major shareholders of some companies – like ourselves – which simply add to current holdings.

At this point we have to make clear that all the above sounds like the fund would trade at depressed levels. The reality is that unlike many value funds around the globe we were making decent absolute returns in 2017 which were not far below the funds 4-year average return of 16.6%.

It is quite easy to understand why we are sticking to our value approach when looking at our biggest holding, Agriculture Bank Insurance, with a gross insurance premium income of around USD 50m and an earnings growth rate of 20% over the past 3 years. The market capitalization is only USD 45m despite the company's high profitability and it trades at a mere 6x earnings. When comparing this valuation with another insurance company of similar size, BIDV Insurance, with a gross premium income of around USD 80m and a market capitalization of roughly USD 175m and trading at 32x earnings (most insurance companies are trading between 20-30x earnings), then one can see why we will remain in the camp of value investors.

Meanwhile Vietnam has become one of the fastest growing insurance markets in the world with a CAGR of 18.9% over the last 8 years. Total insurance premiums reached USD 1.1 billion in 2016.

Figure 11: Total premia, life premia and non-life premia from 2007-2016 (VND bn)

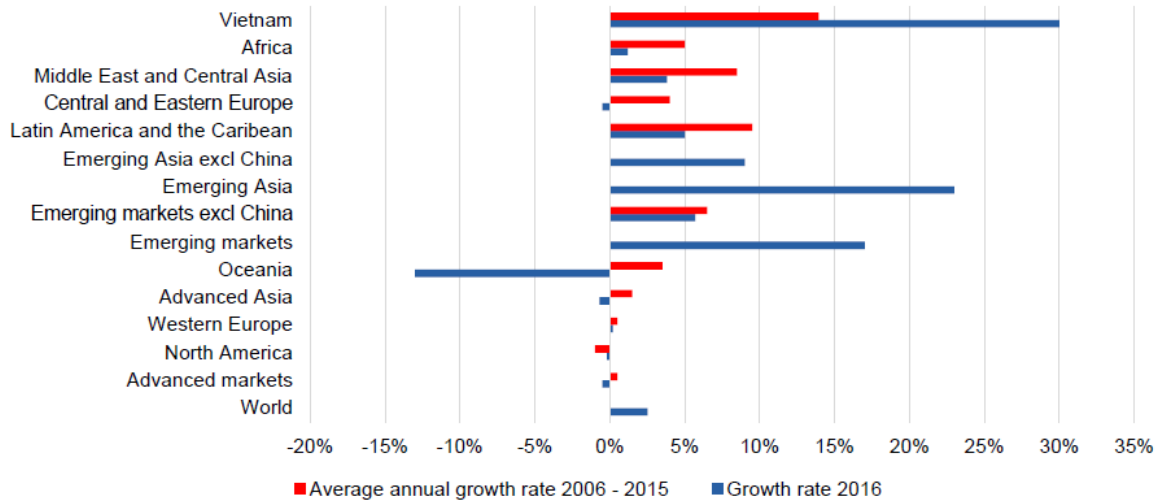


Source: MOF

Life insurance contributes 56.8% and non-life insurance occupies 43.2%. With a population of more than 92 million people, of which more than 60% are under 35 years old, life insurance plays an important role to the sectors growth. In 2016 total life premium growth reached 30% compared to 14% for non-life premiums.

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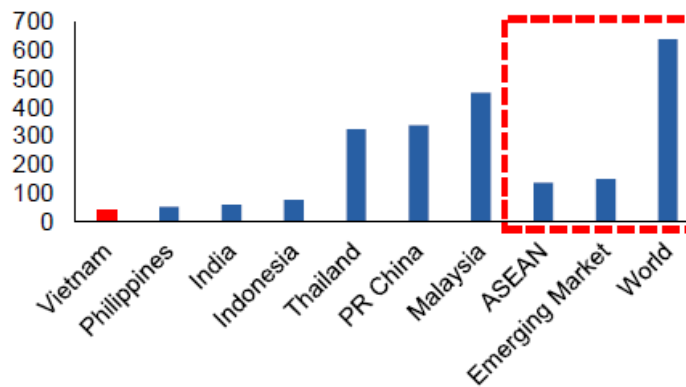
Figure 6: Life premium growth in real terms in advanced and emerging markets (2016)



Source: Swiss Re, VCSC

However, Vietnam is still very small on the global insurance map with a premium per capital of USD 38.4 in 2016, compared to USD 136 for ASEAN, USD 149 for emerging markets and USD 638 for the world average.

Figure 13: Premia per capita in USD, 2016

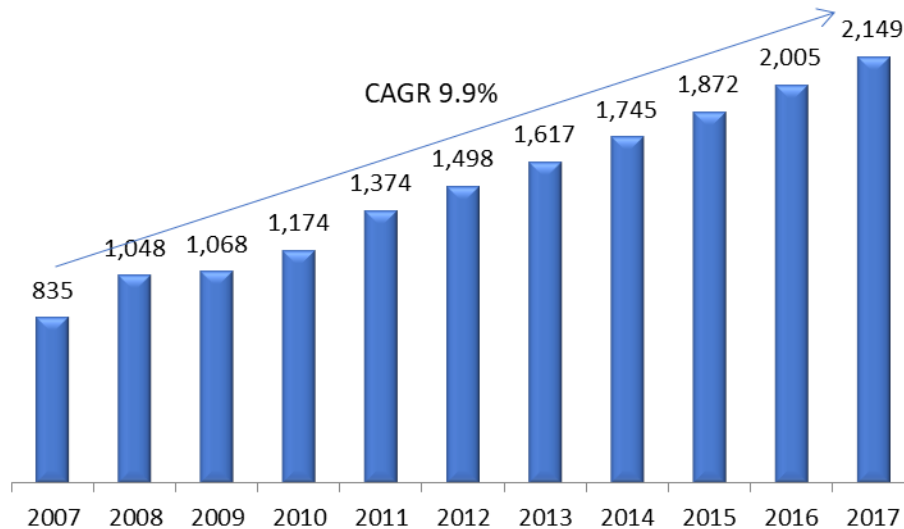


Source: Swiss Re Institute

We strongly believe that the insurance sector will continue to enjoy a high growth rate over the next decade due to Vietnam’s fast growing middle class, with a GDP growth forecast of around 6-7% in the years to come.

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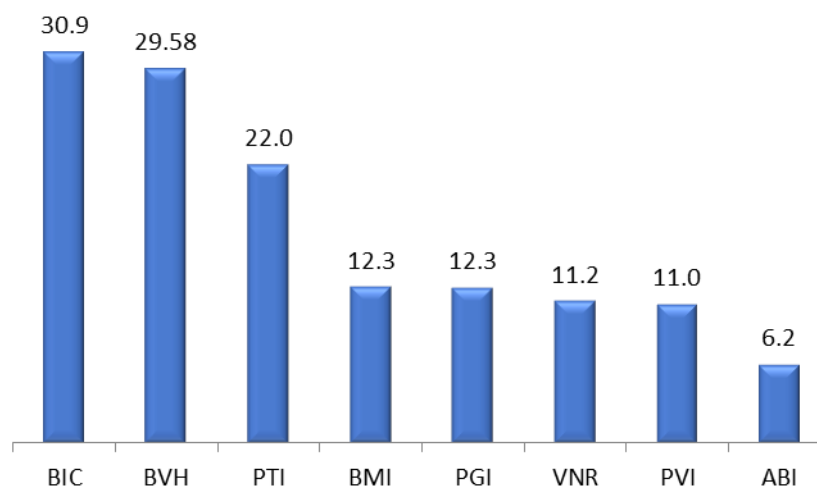
Vietnam GDP per capita (USD)



Source: IMF

Due to this optimistic outlook, the insurance sector is trading at a slightly higher earnings multiple of 18.5x compared to the overall market at 18x. BVH is the largest insurance company in Vietnam with a market cap of USD 1.69 billion and is trading at a PE of 29.6x, while ABI is the cheapest insurance stock with a PE of only 6.2x, though with the highest EPS growth rate – it more than doubled over the past two years.

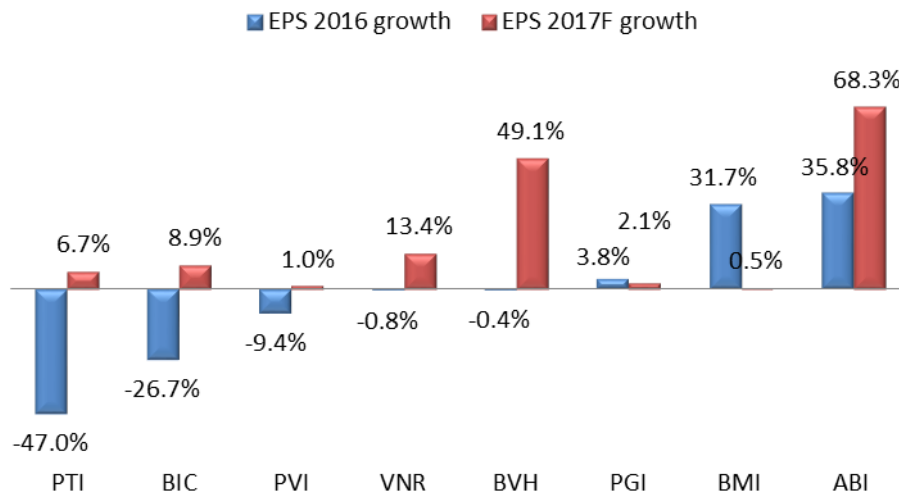
Insurance PER



Source: Bloomberg, AFC research

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EPS growth in 2016 and 2017F

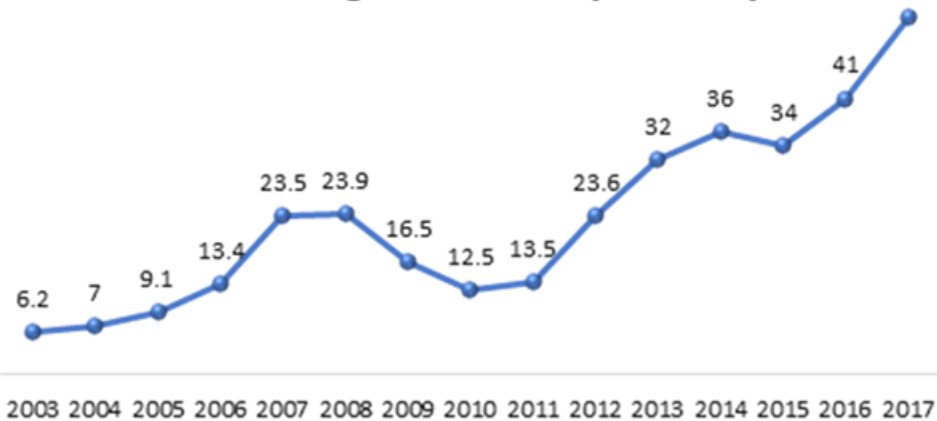


Source: Bloomberg, Vietstock, AFC research

Economy

Vietnam’s Foreign Reserves reached an all-time high in 2017 of USD 53 billion, but increased further by USD 1.5bn in the first 10 days of January to USD 54.5 billion. This is a very encouraging sign, and further boosts confidence in the stability of the Vietnamese Dong versus USD.

Foreign Reserves (USD bn)



Source: Vietnam Statistic Office, AFC research

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Subscription

The subscription deadline for next month will be the 25th 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 15th January 2018

NAV	1,893*
Since Inception	+89.3%*
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	+2.1%*												+2.1%*

*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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