29th February 2020

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) Limited, Cayman Islands
Investment Advisor	Asia Frontier Investments Limited, 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 NAV 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	Trident Fund Services, Hong Kong
Legal Advisor	Ogier, Hong Kong
ISIN	KYG0133A1673

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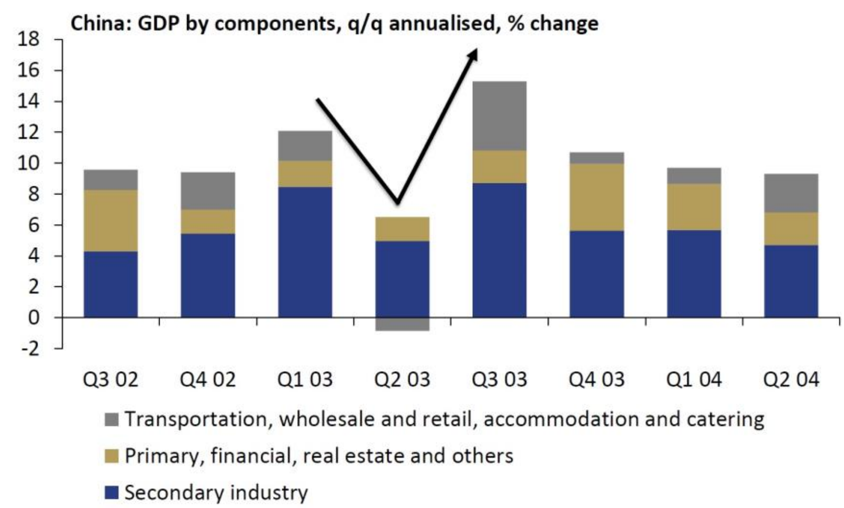
Rattled by other weak markets around the world, Vietnam's markets caught the flu over fears about the economic impact of the Covid-19 (Corona virus) outbreak. After an initial sell-off, markets rebounded and traded sideways for most of the month, until a second selling wave set in. With all due respect to the current panic mode of investors, it is worth noting that despite the correction in global stock markets, the S&P 500 for example is still trading at the same level as a year ago whereas the Nasdaq with its lofty valuation is even 10% higher y/y. The Vietnamese stock markets also retreated, little surprisingly, and ended the month sharply lower with losses of -5.8% (HCMC). All indices were sharply lower with the exception of the Hanoi Index which was pushed up by 2 companies to +7%. Our portfolio showed smaller losses but still got hit by -3.9% with our NAV at USD 1,695, according to internal calculations.

Market Developments

February started with a bang for Vietnamese stock markets. After initially losing almost 5% on the first trading day of February on high volume, the market soon calmed down and recovered before the markets fell for a second time in the final week of trading. The world has seen epidemics in the past and mostly, stock prices were only affected for a very short period, usually for 1 to2 quarters. Of course, certain industries will be impacted more than others, as for example the tourism sector – such as air travel and accommodation – which always has been hit hardest during these epidemics/pandemics. But any dip in economic activity should be compensated for later in the year, as occurred during the SARS outbreak where the market regained lost ground within 2 quarters (see below).



Source: Goldman Sachs, LGT, January 2020

Our portfolio holdings are not directly affected by this crisis as we do not own aviation stocks or companies in the accommodation sector. Depending on the future path of Covid-19, the underperformance we have seen in the more affected countries could be regained in a relatively short period of time. Let's not forget that the US markets just hit another all-time high mid-February and European markets were at multi-year highs recently, while Vietnam along with many other Emerging Markets are still much lower YTD and are already pricing in lower than expected economic growth this year, which currently is estimated at around 6%, down from 7% in 2019; although 6% would still stand out in comparison to global developed GDP growth forecasts.

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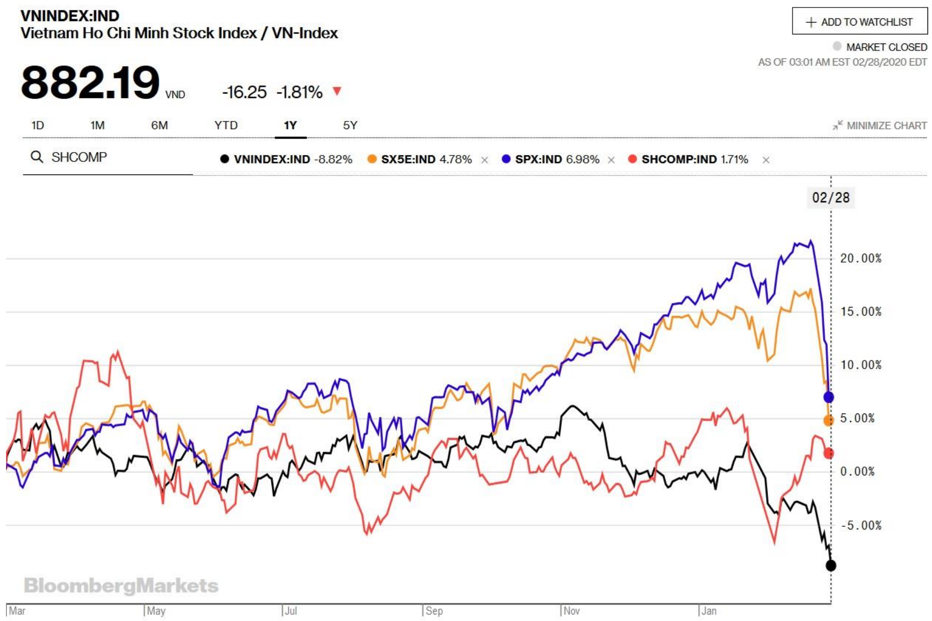
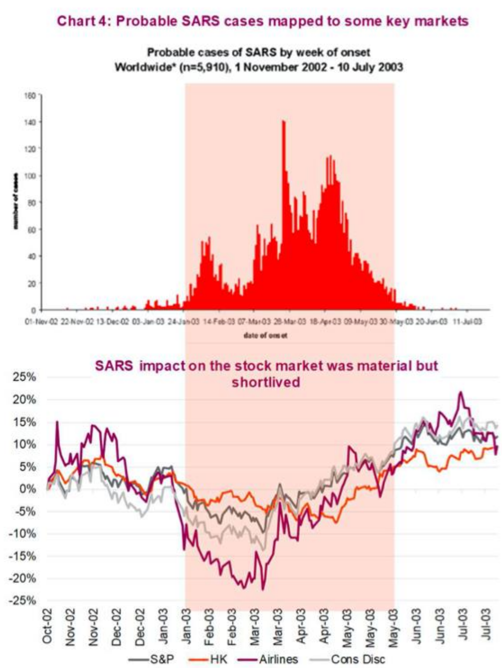
With around 12% of GDP coming from the tourism sector and 20% from the manufacturing sector, the government will most likely step in by ramping up again its almost dormant infrastructure program and therefore should be able to offset most of the damage to the economy. A Moody's report published last week even suggests that Covid-19 will ultimately be a powerful catalyst to prompt the movement of factories from China to Vietnam, and predicts that this will ultimately boost Vietnam's annual GDP growth by 2%.



(1-year performance in local currency USA/Europe/China/Vietnam; Source: Bloomberg)

When we look back to the outbreak of SARS, which is broadly seen as the best comparison to the current virus, it took about 6 months for indices to recover previous levels while airlines strongly underperformed during that period.



(Source: SEE IT market)

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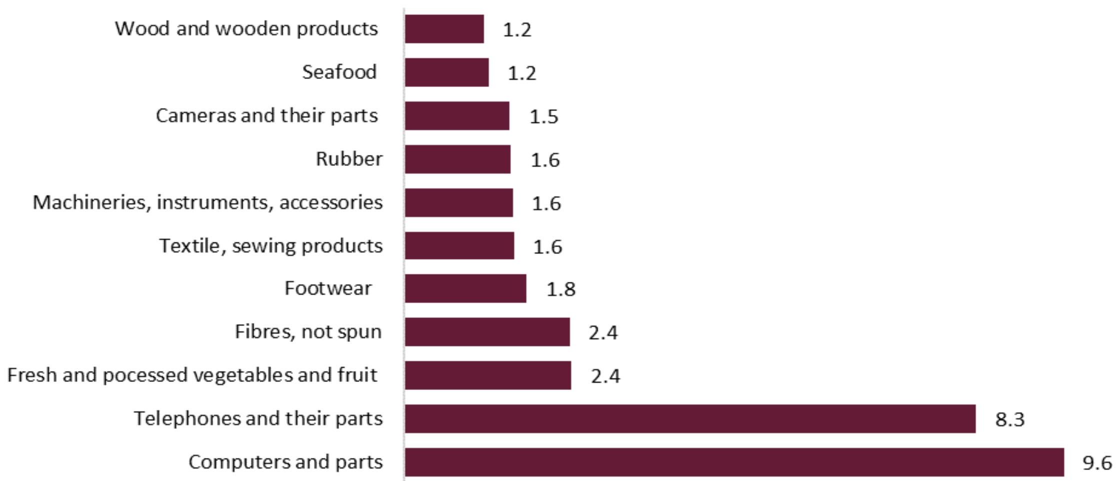
Covid-19 generates opportunities to buy at deep discounts

Covid-19 scares the whole world due to increasing numbers of infected and deceased people in China, Japan, South Korea, and most recently in Europe and Middle East, especially Iran. However, there have been very few infected people in Vietnam so far, with only 16 cases as of 27th February, and all of them have already successfully recovered. Vietnam took immediate action and enforced very strict guidelines since mid-January and people generally behaved very responsibly. On financial markets, we observed that many investors are afraid of companies which export products such as vegetables, seafood, fruits, and other agricultural products such as rubber, rice, tapioca etc. to China.

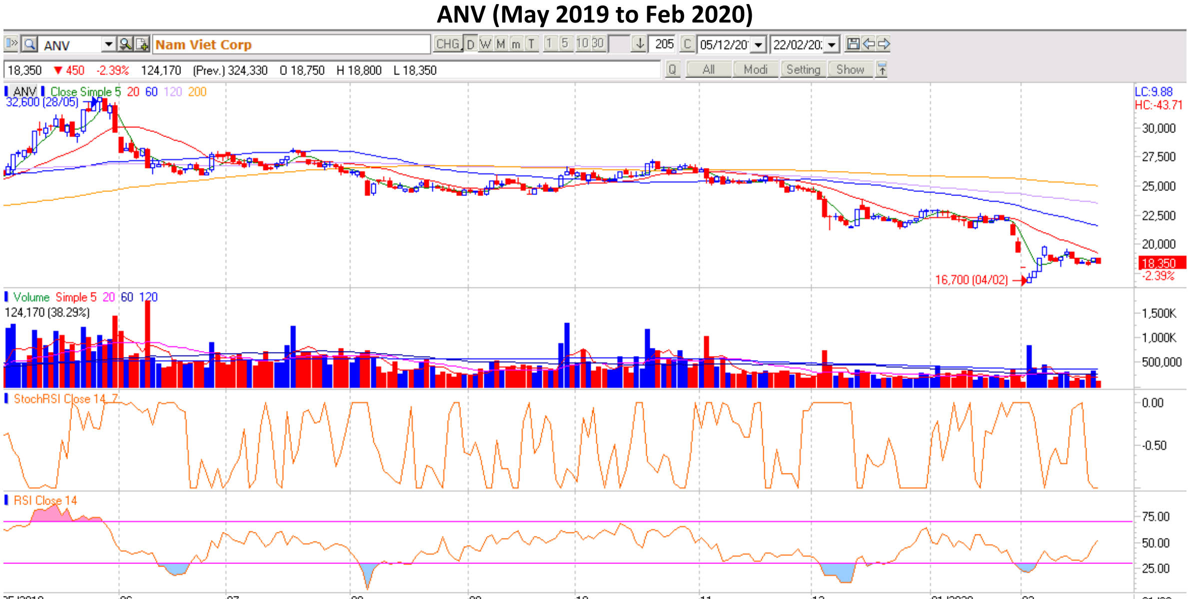
Top products exported to China in 2019 (USD bln)



(Source: GSO, AFC Research)

Among those affected companies, we see a great buying opportunity, for example in Nam Viet Corp (ANV), the second largest catfish exporter in Vietnam. ANV plunged 23.6% YTD and 18.2% alone in February, and is trading now at an extremely attractive valuation with a PER of 3.2x; PBR of 0.9x and a dividend yield of 8.6%.

ANV (May 2019 to Feb 2020)



(Source: Vietcapital Securities)

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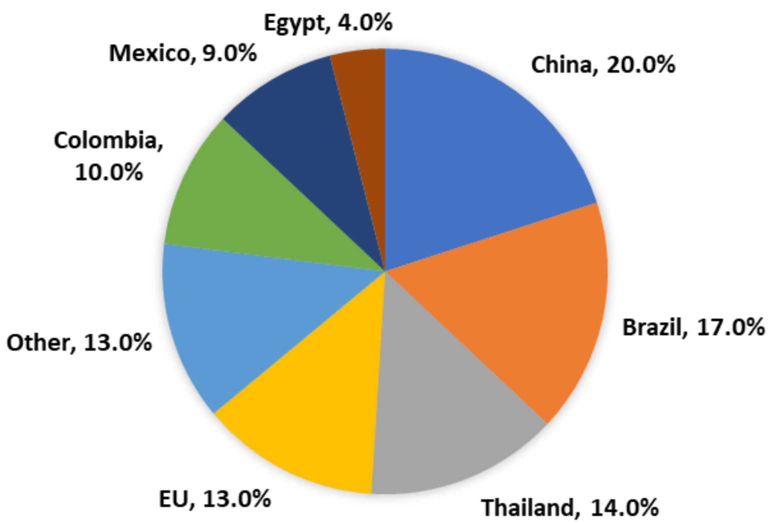
When Vietnam closed the land border to China in January, investors were afraid that ANV's business would be severely hit, given that China is their largest export market, but it only accounts for around 20% of ANV total revenues - although ANV transports its goods via container ships and not via trucks to China.

Revenue by market of ANV in 2018 (%)



(Source: ANV annual report, AFC research)

It seems that food scarcity in China is becoming a bigger issue and we do expect that Chinese demand for catfish will remain strong; but even if exports to China were to decline by 50% in a worst-case scenario, it would just be a 10% revenue shortfall for ANV and might be compensated by stronger demand in other markets.

ANV financial statement (VND bln)

Key factors (VND bn)	2016	2017	2018	2019
Net revenue	2,825	2,949	4,118	4,481
Gross profit	361	432	862	1,043
Operating profit	39	198	690	798
Profit after tax	13	144	604	704
Net profit	19	142	600	704
Total assets	3,018	2,702	3,425	4,134
Liabilities	1,709	1,308	1,577	1,748
Owner's equity	1,309	1,394	1,848	2,386
ROE (%)	1.5	10.5	37.0	33.3
ROA (%)	0.6	5.0	19.6	18.6

(Source: Audited financial reports of ANV, Vietstock, AFC Research)

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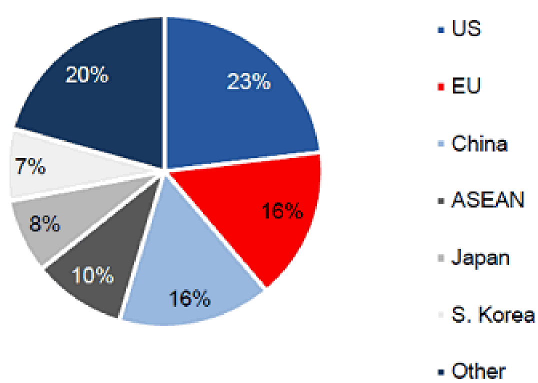
EU-Vietnam Free Trade Agreement (EVFTA)

With 401 votes in favor, 192 votes against and 40 abstentions, both the EU-Vietnam Free Trade Agreement (EVFTA) and Investment Protection Agreement (EVIPA), were passed by European parliament. The EVFTA and EVIPA are expected to increase Vietnam's GDP by 4.6% and exports to the EU by 42.7% by 2025. Total trades between Vietnam and the EU is USD 56.45 bln in 2019, up 1.11% year-on-year, in which the latter exported goods worth USD 41.54 bln and imported worth USD 14.9 bln.

Figure 61: Top export markets in 2019



Source: GSO

Vietnam will clearly benefit from this agreement in the mid-term as many tariffs are slashed to zero, including companies in the textile, footwear, furniture and seafood sector, where we also own listed companies in our portfolio. Once the deal is effective, up to 85% of Vietnamese goods and products exported to the EU will enjoy a 0% tariff immediately; this will gradually increase to 99% over the next seven years.

Necessity is the mother of invention

Some entrepreneurs in Vietnam come up with some curious solutions to handle the current situation. Since exports of dragon fruits to China almost came to a standstill, a local bakery chain, Asia Bakery and Confectionery (ABC Bakery), trying to help local farmers, is promoting a recipe for a delicious dragon fruit bread by replacing 60% of the water used in making the dough with dragon fruit juice.

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(Source: baodanang.vn)

Economy

Macroeconomic Indicators				
	2017	2018	2019	Feb-20
GDP	6.81%	7.08%	7.02%	7.02%
Industrial production (YoY)	9.4%	10.2%	8.9%	6.2%
FDI disbursement (USD bln)	17.5	19.1	20.4	2.5
Exports (USD bln)	213.8	244.7	264.2	36.9
Imports (USD bln)	211.1	237.5	253.1	37.1
Trade balance (USD bln)	2.7	7.2	11.1	-0.2
Retail sales (YoY)	10.7%	11.7%	11.8%	8.3%
CPI (YoY)	3.53%	3.54%	2.79%	5.91%
VND	22,755	23,175	23,230	23,310
Credit growth (YoY)	17.0%	13.9%	12.1%	0.3%
Foreign reserves (USD bln)	51	60	73	79

(Source: GSO, VCB, State Bank, AFC Research)

Subscription

The next subscription deadline will be 25th March 2020. If you would like any assistance with the subscription process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

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Estimated NAV as of 29th February 2020

NAV	1,695*
Since Inception	+69.5%*
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%	+0.01%	**+13.33%**
2018	**USD**	+0.41%	+0.42%	+0.58%	-0.93%	-3.24%	-0.12%	-1.28%	+0.79%	+3.02	-2.14%	+0.45%	-2.05%	**-4.17%**
2019	**USD**	-1.63%	+2.90%	+1.58%	+0.82%	-3.35%	+1.98%	+1.18%	+1.63%	-1.89%	-2.34%	-1.59%	+2.31%	**+0.70%**
2020	**USD**	-1.41%	-3.9%*											**-5.3%***

***According to internal calculations**