

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

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Vietnam witnessed another stellar month of performance in June and was once again successfully ignored by foreign investors, although we saw selling receding in the second half of the month. Nevertheless, the index climbed to a new record high with a monthly performance of +6.1%, despite trading volume slowing a bit, and market breadth was disappointingly flat. This makes us even more proud in this environment to be able to outperform the market and show strong gains again of +8.2% to an NAV of USD 3,036 which brings up the year-to-date performance to +32.9%, according to internal estimates.

### Market Developments

Sector rotation led to profit taking in banks which were the main driver for the index gains in 2021 so far. We took some profits early enough in our bank holdings and therefore were able to add money to the insurance sector which started to perform well in June. Vietnam's insurance market has grown significantly faster than other countries in the region. Currently, around 70 insurance enterprises are operating in Vietnam with total assets of just USD 25 bln in 2020, with the majority in the life insurance business (almost 90%). The sector is still in its early growth phase where around 12 mln Vietnamese have bought (albeit low value) life insurance; but for example, only around 4% have bought health insurance and short-term health insurance.

After being heavily invested in ABI (Agriculture Bank Insurance) for years and owning around 6% of the company, we bought another undervalued insurance stock, with the profits we realized in LienViet Post Bank (LPB) which more than tripled over the past 12 months and had become our biggest holding for a brief period. Given the cheap valuation of ABI, which trades at just 7x earnings and has good long-term growth prospects, growing more than 20% per year, we believe there is a fair chance of a revaluation to market levels over the next 1-2 years, which would mean an increase from the current stock price of VND 60,000 to around VND 150,000. One of the many possible catalysts for this to happen could be a move from UPCOM, where ABI is currently listed, to the main market in HCMC, as we have seen with LPB which moved its listing in November 2020.

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**ABI (Agriculture Bank Insurance), since May 2017, trading on UPCOM, and LPB (LienViet Post Bank), since November 2020, trading on HOSE**



(Source: TradingView)

This catch-up from an undervalued to a fair valuation, has always been one of the main arguments for our fund to hold this position in ABI, as we are looking for growing companies trading at a discount to the sector and to the market. Early investors might remember our thesis, how an expansion in the valuation is far more important for the performance than the underlying growth in earnings. Now, while our scenario drawn in 2016 has occurred – and despite the average P/E of our portfolio having moved only from 7x to 10x since 2016 - we update this “5-year plan” with present data to show the still enormous potential of our AFC Vietnam Fund.

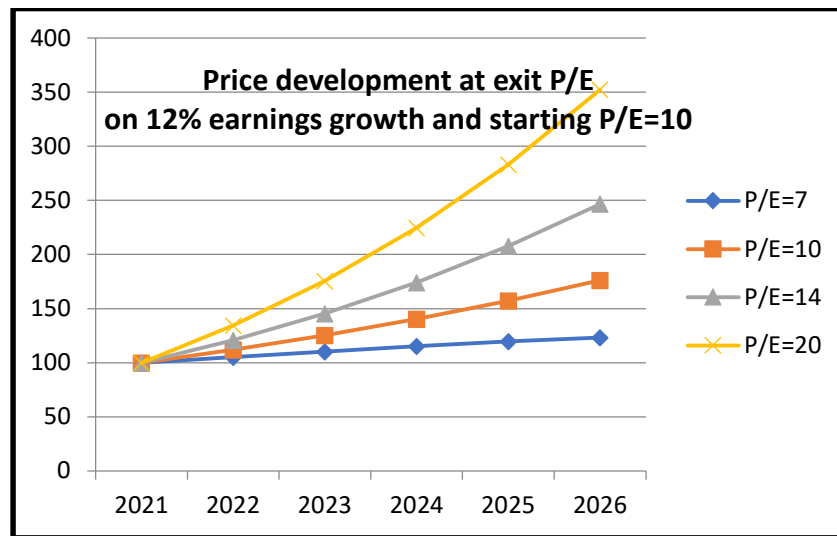
To explain this impact from revaluation, we can take the example of ABI. If earnings would just grow 12% annually over the next few years, net profit would grow 76% over 5 years, meaning that on a stable valuation of currently around 7x earnings the stock price should be 76% higher. Even if the stock market would drop and drag the valuation down to an excessively undervalued 5x earnings valuation, the stock should trade 17% higher from here. But our investment experience shows that at some point, as we currently encounter with ABI, the market will recognize the value of a stock like ABI and gradually revaluates it to the market average, which is currently 19x earnings. In that case, this stock would trade 344% higher 5 years from today. Even without any earnings growth, but a revaluation to 19x earnings, the stock price would advance 152%, which would be much higher than by earnings growth alone.

ABI	2026
P/E 5	70.071
P/E 7	98.099
P/E 10	140.141
P/E 14	196.198
P/E 19	266.269
current price of ABI: 60.000	

In the same way we did these calculations back in 2016, we have updated possible price scenarios for our fund and its holdings currently trading at an average of 10x earnings. Based on our conservative earnings growth calculation of 12% we see the potential performance on various P/E adjustments over the next 5 years.

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## Updated 2021 impact calculation of P/E changes



(Source: AFC Research)

What is shown here is the most optimistic scenario with tremendous potential, an average earnings growth of 12% for our companies in a strong and growing economy which is actually quite conservative. The potential valuation change of our portfolio to a P/E of 20x would also just track the current Vietnamese market valuation which is still below the world's average, even after recent gains. It is important to keep in mind, that too many times, even long-term investors miss the momentum which undervalued stock markets develop once they are kissed awake after a prolonged time of beauty sleep.

### ESG (Environmental – Social – Governance) as a growth driver in Vietnam

Vietnam with its population of almost 100 mln has had one of the highest economic growth rates in the world for many years, with all indications pointing to a continued positive trend over the next few decades. What the new US administration announced in terms of infrastructure projects, which should bring its competitiveness back, is also happening in countries such as for example Vietnam which is building its own modern infrastructure for the very first time. Airports, highways, ports – just to name a few, should continue to help the country's path to developed country status over the course of the next 1-2 generations. China is a very good example of what a politically and collectively motivated country can achieve. Vietnam has already become a manufacturing powerhouse, often as a cheaper alternative to China, but therefore in urgent need to upgrade its infrastructure. Its middle class should double over the next 10 years from 1/3 to 2/3 of the total population of around 97 mln. All of this will increase its ever-growing hunger for more consumer spending, electricity – and unfortunately pollution. Learning from the experience and mistakes of the economic miracle of its big neighbor China, Vietnam will hopefully manage to execute its environmental and social issues better. As investors in Vietnam, it is our liability to take ESG into account when it comes to investment decisions. In the western investment world ESG has seen huge money inflows and produced outstanding returns for investors while in developing countries impact and performance could be even bigger in the long run since continuing long term economic growth needs an overproportioned investment in green industries in order to reduce the risk that pollution gets out of control.

It is therefore just an obvious consequence to see the government prioritizing green investments in the energy sector which attracts billions of dollars in various green energy projects.

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(Source: VnExpress/Nguyet Nhi)

Thang Long Wind, a USD 11.9 bln, 3.4 GW offshore plant, is being built in the central province of Binh Thuan, while La Gan, another offshore wind farm and a joint venture between Asia Petroleum Energy Corporation (Asia Petro), Novasia Energy Company and the Danish fund management firm Copenhagen Infrastructure Partners (CIP), will have a capacity of 3.5 GW and a price tag of USD 10.5 bln. Other companies are following suit like Danish multinational power company Orsted, which already operates many wind farms in other Asian countries, and has identified Vietnam as its next investment destination. With a coastline of 3,260 km, low sea levels and high wind speeds, Vietnam is attracting a lot of interest in offshore wind power in Southeast Asia. Qiao Liming, Asia director of the Global Wind Energy Council (GWEC), said a strong point of offshore wind power is the high efficiency of 29-52 percent, double that of solar energy, higher than onshore wind power and equal to gas-fired electricity. With new technologies, the efficiency of offshore wind power is increasing annually by 2.5 percent, she said. The unit cost for 1,000 kWh of electricity generated by an offshore wind power farm is currently around USD 83, down from USD 255 in 2010, and should fall further in the years ahead.

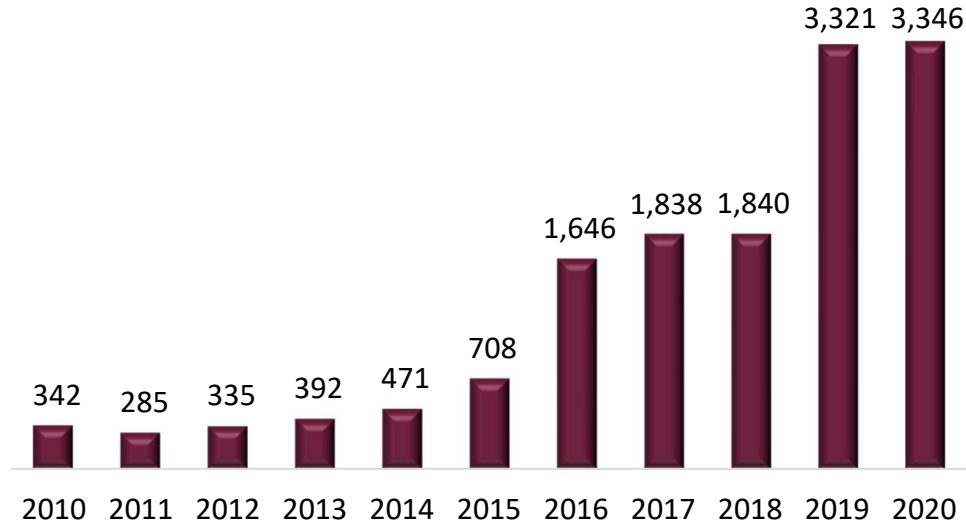
On the other hand, the cost for offshore wind power is more than double that of onshore wind power, and it takes five to seven years to build a farm excluding the time needed for investment procedures, licenses, geological surveys, gauging winds, and others. It is obvious, that local companies active in this field should see excellent growth in the years to come, and while there are not that many listed companies we identified as attractive investment candidates, we found one which we believe could be a gem in the universe of energy companies in Vietnam.

### **TV2 – The leading green energy player**

*Power Engineering No 2 Consulting (TV2)* is the leading EPC contractor (engineering, procurement, and construction) and consultant in building green energy plants such as solar, wind and biomass power. As a formerly state-owned enterprise, TV2 was privatized in 2007 where Electricity Group of Vietnam serves as major shareholder with 51%. From 2009 the company was listed on Hanoi Stock Exchange and it switched to the Ho Chi Minh City Stock Exchange in 2019. Over the last 10 years, TV2 has been the pioneer in green power consulting. Most of the big hydro, solar, and wind power projects in Vietnam have been designed by TV2. The company invested aggressively in human resources and R&D to keep its growth, competitiveness, and market share, and was able to show impressive growth in net revenues and net profits over the last 10 years.

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Net revenue TV2 (VND bln)



(Source: company annual report)

Over the course of the past few years, TV2 was involved in hundreds of hydro power plant projects with a total capacity of over 14,200 MW. They were involved in some significant projects such as Son La Hydro Power Plant (2,400 MW), Hoa Binh Hydro Power Plant (1,920 MW), Don Duong Hydro Power Plant (1,200 MW) or Ham Thuan Bac Hydro Power Plant (1,200 MW). As of around 2015, TV2 started focusing more and more on renewable energy such as solar, wind and biomass power projects. Beside their core activity of design and business consulting, they also started investing into green energy projects. Below are some of the projects that TV2 had invested in:

- Son My Solar Power Plant (50 MW; total investment capital VND 1,149 bln)
- Tan Thuan Wind Power Plant (75 MW; total investment capital VND 3,579 bln)
- Vinh Tan Solar Power Plant - Phase 1 (10 MW; total investment capital VND 150 bln)
- Hau Giang Biomass Power Plant (20 MW; total investment capital VND 1,320 bln)

### My Son 3.1 solar farm designed and built by TV2



(Source: TV2 website)

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According to the company's strategic master plan for 2025, they are planning to build many green energy projects with total capacity of more than 500 MW. TV2 also plans to reach net revenues of VND 10,000 bln by 2025, three times the net revenues of 2020. TV2 is playing an important role in helping to build the electricity master plan of Vietnam, given that they are a pioneer in designing renewable energy projects and transforming and upgrading inefficient and old power plants.

Vietnam is a manufacturing hub with a very high economic growth rate, which unfortunately also generates an increasing greenhouse gas output, similar to what we have seen in China 20 years ago. The strong and fast economic growth has turned China into one of the largest CO2 producers in the world and in order to improve their carbon footprint, Vietnam has huge demand for green and renewable energy companies such as TV2. This is one of the main reasons why we decided to invest in TV2, besides the fact that TV2 is grossly undervalued. The company is trading at a P/E of 7.7x and P/B of 1.7x. Total market cap of the company is around USD 87 mln. We strongly believe that TV2 will continue to grow rapidly in the future and attract more and more investors, particularly international investors, of which many of them are looking for investments in attractive ESG companies.

Key investment factors	Units	Value
Market cap	VND bln	2,016
Net profit	VND bln	262
P/E	x	7.7
P/B	x	1.7
ROE	%	24.9
Total assets	VND bln	3,336
Cash balance	VND bln	946
Liabilities	VND bln	2,169
- of which bank loans	VND bln	72
Owner's equity	VND bln	1,167

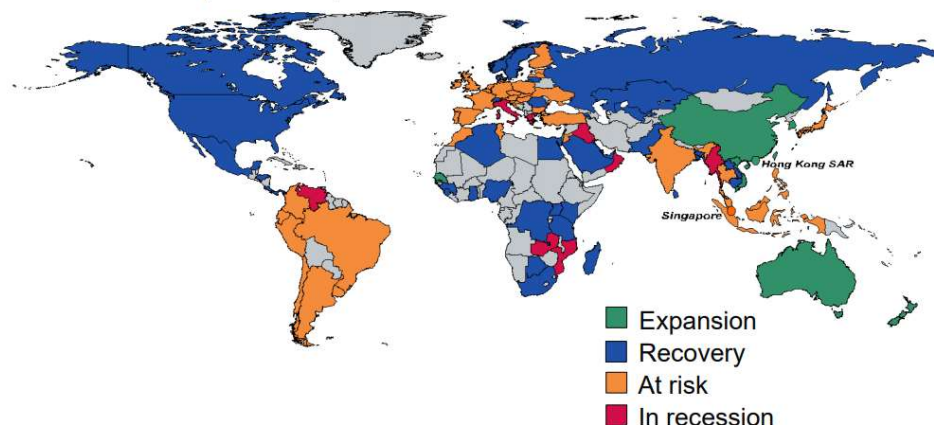
(Source: TV2 audited reports)

### COVID-19-update

Despite the latest resurgence in COVID-19 cases in Asia, Vietnam is doing comparably well. Daily cases now range in the 300's, mostly under quarantine, with Ho Chi Minh City seeing confinements whereas Hanoi has already relaxed some of the restrictions. While late, Vietnam, as others, is ramping up its vaccination campaign, currently with more than 3 mln people having received at least their first shot. Vietnam, along with only a few other countries in the world, continues to be on track for uninterrupted growth as current data shows.

## Global Pivot; Divergence in Asia

Global business cycle status, Jun 2021



Source: Moody's Analytics

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## Economy

Macroeconomic Indicators				
	2018	2019	2020	Jun-21
GDP	7.08%	7.02%	7.30%	5.64%
Industrial production (YoY)	10.2%	8.9%	3.4%	8.9%
FDI disbursement (USD bln)	19.1	20.4	20.0	9.2
Exports (USD bln)	244.7	264.2	281.5	157.6
Imports (USD bln)	237.5	253.1	262.4	159.1
Trade balance (USD bln)	7.2	11.1	19.1	-1.5
Retail sales (YoY)	11.70%	11.80%	2.60%	4.90%
CPI (YoY)	3.54%	2.79%	3.23%	1.47%
VND	23,175	23,230	23,108	23,016
Credit growth (YoY)	13.9%	12.1%	10.5%	5.5%
Foreign reserves (USD bln)	60	73	92	94.8

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

## Subscription

The next subscription deadline will be 26<sup>th</sup> July 2021. If you would like any assistance with the subscription process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund



# AFC VIETNAM FUND UPDATE

## Estimated NAV as of 30<sup>th</sup> June 2021

NAV	3,036*
Since Inception	+203.6%*
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%	+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%	-3.93%	-18.44%	+12.72%	+4.28%	-0.28%	+0.78%	+8.65%	+6.02%	+0.72%	+6.91%	+12.77%	+27.66%
2021	USD	-1.89%	+9.49%	+5.84%	+1.58%	+6.37%	+8.2%*							+32.9%*

\*According to internal calculations

*\*The Fund has appointed ACOLIN Fund Services AG, succursale Genève, 6 Cours de Rive, 1204 Geneva, Switzerland, as its Swiss Representative. NPB Neue Privat Bank AG, Limmatquai 1, 8024 Zürich, Switzerland is the Swiss Paying Agent. In Switzerland shares shall be distributed exclusively to qualified investors. The fund offering documents, articles of association and audited financial statements can be obtained free of charge from the Representative. The place of performance with respect to [shares distributed in or from Switzerland is 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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