



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 60 days notice
Benchmark	VN Index
Fund Manager	Vincente 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	EY, Hong Kong
Administrator	Custom House, Singapore
Legal Advisor	Ogier, Hong Kong
ISIN	KYG0133A1673

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Like many other markets around the globe Vietnam was in correction mode in October. As observed in the broader market for some time now, blue chips were digesting recent gains with the main index in Ho Chi Minh City losing 1.4% in local currency. Smaller stocks in Hanoi were down even more with the index 3.2% lower for the month. Including a minor correction in the currency, which is explained below, our NAV was down 2% to USD 1,648, according to internal calculations.

Market developments

While stocks were broadly weaker last month, attention turned to third quarter results. We saw many individual stock price movements, also within our portfolio. But more important than short term price action is the fact that companies are delivering their expected profits. While several sectors were impacted by either low oil prices or the drought in 2015/16, we see positive developments in many of our fund investments. After about 90% of our companies reported results so far, the actual results were pretty much in line with our forecasts and our adjustments to full year profits were minimal. Furthermore, as many stocks in our portfolio corrected over the past few months, while the fund barely lost in value, our portfolio is now very attractively valued again. The general market is currently valued about 75% higher than our portfolio of about 80 stocks. With our broad diversification and low volatility, we are now just waiting for the next upturn in the broader market which had a hard time for most of the year.

Major theme for the fourth quarter is the upcoming privatization and listing of well-known companies which will further bring attention to the Vietnamese stock markets.

HABECO

The long-awaited listing of Hanoi Beer Alcohol and Beverage (Habeco), the country's third largest brewery, finally took place last Friday with its listing on UPCoM. The initial price was set at VND 39,000 (USD 1.75), giving it a market value of \$405 million. The stock ended its first trading day at VND 54,600 with only 100 traded shares, jumping 40% against the reference price.

To put things into perspective, when the company was originally privatized in 2008, the average auction price was VND 50,015 per share. With the current price, Habeco is trading at 19.5 times its expected 2016 earnings while ASEAN brewers are trading at an average of around 22x.

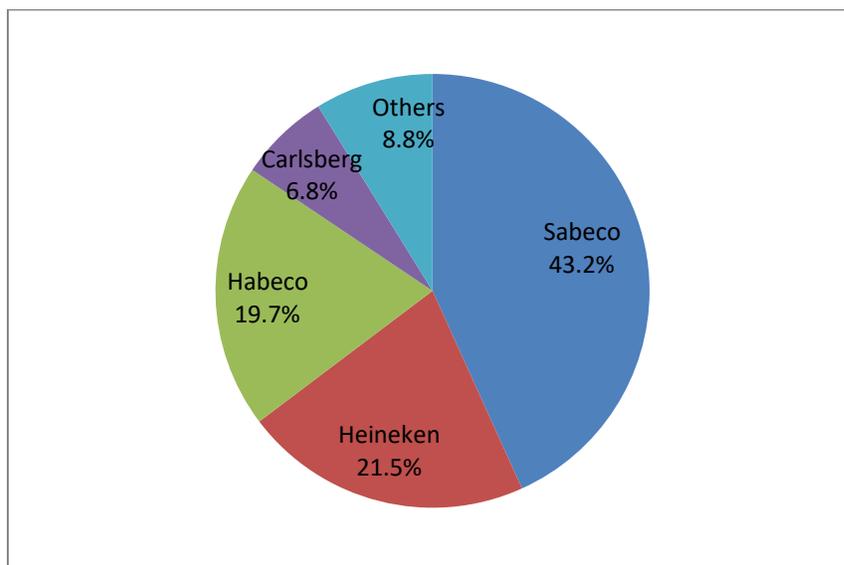
(VND bn)	2011	2012	2013	2014	2015
Net revenue	6,070	6,466	6,447	7,102	9,638
Operating profit	1,021	1,187	1,224	1,392	1,171
Net profit	793	981	831	1,101	952
ROE (%)	21.1%	23.5%	18.3%	20.8%	15.6%
ROA (%)	10.4%	12.5%	10.3%	11.8%	9.6%

Source: Habeco audited financial statements

In 2015, the company produced 670,000 million liters to catch 19.7% market share after Sabeco and Heineken. In the last five years, net revenues of Habeco jumped by 58.8%, however its market share was decreasing year after year, losing ground to other competitors such as Heineken and Sabeco.

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Market share in 2015



Source: Vietnam Beer Alcohol Beverage Association

The Government currently holds 81.79% and the Danish brewer Carlsberg owns 17.23%, hence the free float is only 2.2 million shares. Until the Government actually divests its entire stake as planned, we expect dismal liquidity and upward pressure on the stock price. But once they offload their stake, shares may go straight to a strategic investor, such as for example Carlsberg which intends to double its stake in Habeco as they have preemptive rights to do so.

The bottom line is, there is no lack of interest for Vietnam's beer market, with consumption of 3.8 billion liters in 2015, making it one of the largest in Asia. Vietnamese beer drinkers are expected to consume more than 4 billion liters in 2016, which equates to an average of 27.4 liters of beer per year per person. This is the highest per capita consumption in Southeast Asia and the third largest in Asia after Japan and China.

Vietjet Air IPO

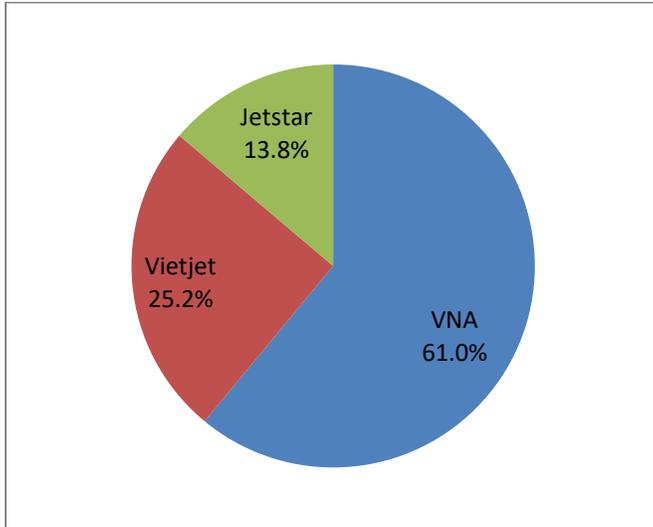
Vietjet, the fastest growing Vietnamese low-cost airline, has delayed plans for an initial public offering in Singapore or Hong Kong because of legal complications, since the company must first IPO in its home country, according to Vietnamese law. Vietjet was founded in 2011 by Ms. Nguyen Thi Phuong Thao, a property and banking tycoon. The company has been growing at an amazing pace to be the largest airline in Vietnam with revenues growing 9x in the period from 2012-2015.

In 2015 the airline carried 9.3 million passengers and is hoping to increase that to 15 million this year as the company adds routes and aircrafts to its existing fleet of 45 single-aisle Airbus A320s and A321s. Regarding to CAPA – Center for Aviation, Vietjet's market share jumped year after year to reach 36.3% in 2015 and 40.0% in January 2016. According to the estimation of CAPA, Vietjet has probably overtaken Vietnam Airlines as the largest aviation company [Comment: or you can say aviation company] in Vietnam as of June 2016.

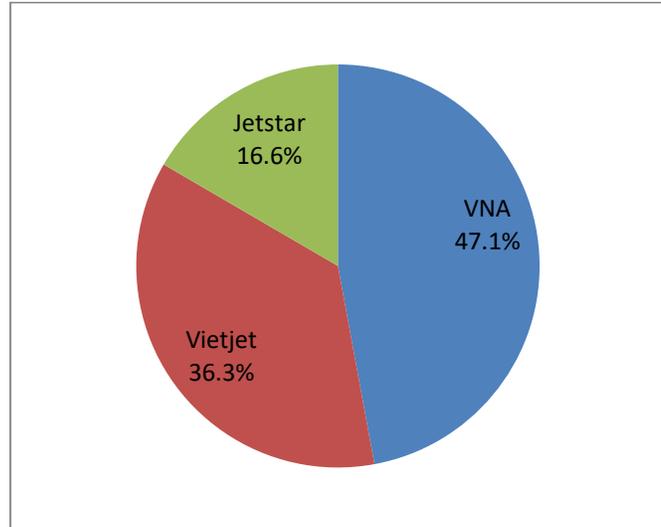
This year Vietjet has placed orders for 100 Boeing 737s and 20 Airbus A321s to replace its leased fleet and expand capacity by roughly 10 aircrafts per year.

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Market share in 2013



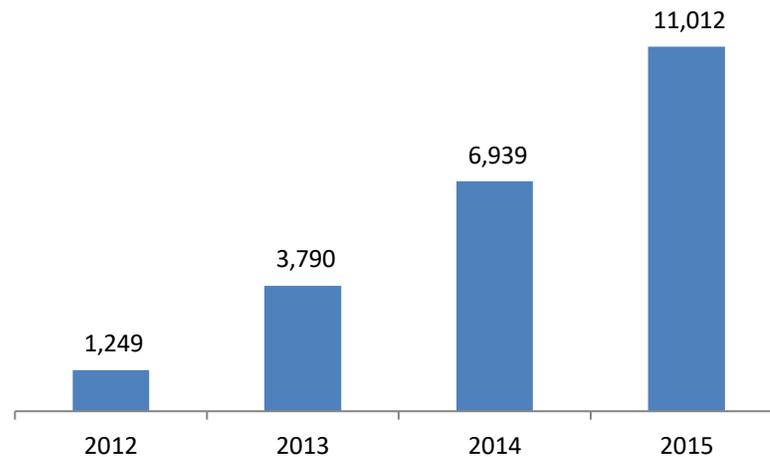
Market share in 2015



Source: Ministry of Transportation

Vietjet is legendary in the aviation industry in Vietnam until now. In 2015, the company reported net revenues of VND 11,012 billion (USD 495 million) and a net profit of nearly VND 1,000 billion (USD 45 million), much higher than Vietnam Airlines.

Net revenue of Vietjet (VND bn)



Source: Vietjet

In November 2014, Vietnam Airlines was privatized after selling 62.2 million shares, equivalent to 5.55% to investors at an average price of VND 22,300 per share. The company was valued at USD 1.12 billion at that time. If Vietjet plans to undertake the IPO in 2016, the company may reach an estimated value of USD 1 billion.

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The aviation industry in Vietnam looks quite promising over the coming years, with a population of 92 million and rising income. Vietnam has the fastest growing middle class in Asia Pacific, according to Boston Consulting Group, and hence its customer base is expected to grow rapidly, given that more and more people are able to afford to travel by air.

Economy

Inflation saw a strong surge in October, rising to 4.09% YoY (+0.83%) mainly due to price hikes in healthcare and transportation. The government wants to keep inflation in 2016 below 5% and we believe this is achievable.

In October, total FDI disbursement stood at USD 12.7 billion, + 7.6% YoY. This is an important figure since it reflects foreign investors' confidence, showing a continuation of investments into industrial processing and manufacturing.

Export value in October recovered slightly compared to September and advanced by 0.5% to USD 15.5 billion. Consequently, total exports in the first ten months of the year hiked 7.2% YoY to USD 144.1 billion. The General Statistic Office of Vietnam commented the following regarding the Samsung's Galaxy Note 7 issue: *"The battery problems required Samsung to recall its products and stop exporting this model out of Vietnam. Hence exports of mobile phones and accessories are expected to fall, however it will not be significant because of following reasons: 1) Galaxy Note 7 is partly produced for the domestic market; 2) The model's contribution in Samsung Vietnam's export is not significant; 3) Samsung Vietnam is pushing other models such as Galaxy S7 to cover the loss from Galaxy Note 7"*.

Import in October increased by 7.9% against September to USD 15.7 billion. Total import value in the first ten months hit USD 140.6 billion (+2.1% YoY), while the trade surplus reached USD 3.5 billion.

The Ministry of Agriculture and Development announced that the country's total export value of agro-forestry and fishery products in the first ten months recorded an increase of 6.3% YoY, valuing USD 26.4 billion. USD 12.5 billion are from main farming products (+7.8% YoY), USD 5.7 billion from seafood products (+5.9%) and USD 5.8 billion from forestry product. Various main farming products saw impressive increases in the nation's export value, notably mentioned coffee accelerated 40.2% YoY with a value of USD 2.76 billion and pepper advanced 35.7% YoY recorded USD 1.29 billion in value. (In October alone, the total export value of agro-forestry and fishery products was estimated at USD 2.75 billion.)

A draft on tax deduction submitted to National Assembly is promised to boost entrepreneurship. Under this term, corporate income tax for Small- and Medium-Sized enterprises would be narrowed from the current 20% to 17% between 2017 and 2020.

By the end of 2015, public debt reached VND 2,600 trillion (USD 116bn), equivalent to 62.2% of the country's GDP, which is still lower than the limit of 65% of GDP. More important however is the ratio of short-term debt to foreign reserves. If we look at key Asian countries, the majority – including Vietnam - are within a modest and manageable range. This situation will need to be monitored and managed carefully and is certainly a balancing act between an expanding economy, enabling corporates to generate profits and its supportive government measures such as e.g. infrastructure spending, tax incentives, etc. We are confident, that Vietnam will find the right balance and are therefore very optimistic about its future economic outlook.

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Macroeconomic Indicators				
	2013	2014	2015	Oct-2016
GDP	5.42%	5.98%	6.68%	5.93%
Industrial production (YoY)	5.9%	7.6%	9.8%	7.2%
FDI registration (USD bn)	21.6	20.2	22.8	17.6
FDI disbursement (USD bn)	11.5	12.4	14.5	12.7
Exports (USD bn)	132.2	150.0	162.4	144.1
Imports (USD bn)	131.3	148.0	165.6	140.6
Trade balance (USD bn)	0.9	2	-3.2	3.5
Retail sales (YoY)	12.60%	10.60%	9.50%	9.30%
CPI (YoY)	6.03%	1.86%	1.34%	4.09%
VND	21,125	21,405	22,540	22,365
Credit growth (YoY)	12.5%	14.0%	17.3%	11.8%
Foreign reserves (USD bn)	32	36	36	40

Source: AFC research, SSI, GSO, SBV, VCB

Other developments

We saw a tiny depreciation of the Vietnamese Dong in October. It is worth to mention that this small 0.10% loss against the USD is the first movement since early this year. Almost every year there is an increasing demand for USD towards the year end. This year that is also the case, especially since the USD is appreciating and the Chinese Yuan has been depreciating 1.5% last month and 4.1% year to date. The depreciation of the Yuan was one of the main reasons behind the weakness of worldwide stock markets early this year, but nobody seems to care much this time around, which is quite astonishing...



Source: Bloomberg

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Subscription

The subscription deadline for this month will be the 24th November 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 30th Sept 2016

NAV	USD 1,648*
Since Inception	+64.8%*
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%	+3.00%	+0.13%	+0.11%	-2.0%*			+16.14%*

* 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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