

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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A bank rally fueled by a small interest rate cut led to gains in the indices where financials are weighted heavily. While the small cap index closed down -2.6% for the month, the HCMC Index gained +1.3%, and the Hanoi Index gained +2.7% on the heels of the index heavyweight, Asia Commercial Bank, which gained +5.4%. With a limited number of stocks supporting this advance, combined with profit taking in our gainers from last month, our NAV declined -2.0% to USD 1,830, according to internal calculations.

How strange the market is behaving at the moment shows the fact that while the HCMC Index is trying to break out over the 1,000-point barrier, which it has been fighting for over the last 18 months, the Hanoi Index dipped below 100 during the month for the first time since the summer of 2018. It recovered strongly since then, but is still at levels we saw two years ago!

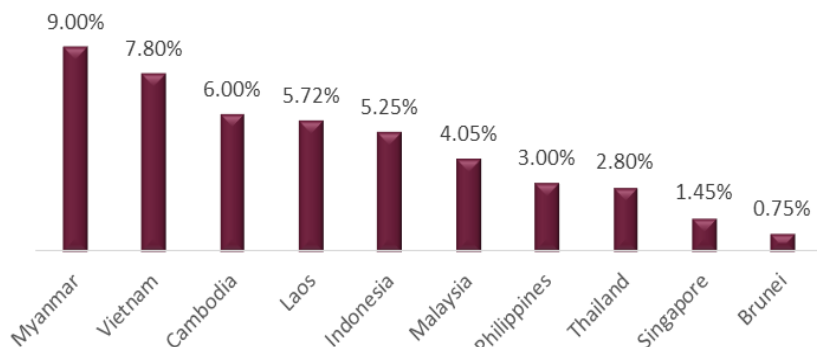


(HNX 2 years; Source: Viet Capital Securities)

Market Developments

Lower rates as a sign of loosening money policy should support the economic growth in Vietnam. The State Bank of Vietnam recently reported credit growth numbers at 8.4%, lower than in prior years. The rise in bank shares as a consequence is understandable since interest rates are still high relative to other countries in the region and in the world. What may look like nostalgia for most people in the Western world, saving money in Vietnam still makes sense, given that inflation is well under control.

ASEAN 1yr deposit rates in local currency



(Source: FinancialAdvisory)

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Unlike in Europe where negative nominal and real interests are having a negative impact on bank's profit, Vietnam still enjoys an "old fashioned" credit cycle. As always, the limited availability of foreign room for local bank shares makes it difficult for foreign investors to find suitable investments in this sector. Besides Vietcombank and BIDV, most of the bigger bank stocks have reached their foreign ownership limit for a long time and hence are not accessible for international investors without paying a premium.



(VCB from May 2017 – Sept. 2019; Source: Viet Capital Securities)

Of course, one has to ask the question why shares of some banks are still available to foreigners? While some funds do not invest in UPCOM listed banking shares, other banks are too small, too weak or too expensive to invest in. But nevertheless, there are some foreign investors who need to or want to have exposure in the top banks which are still available to them. One example is Vietcombank, which was pushed up by foreign investors to a valuation premium of over 100% compared to other bank stocks. This is of course a risky strategy should banking stocks correct for whatever reason in the future. Vietcombank is now trading at **22x earnings**, almost 4x book value and 25% of total assets. Others, like for example Military Bank, with no foreign room left, is trading at a much lower valuation of 8x earnings, 1.3x book value and 12% of total assets.

Top 5 largest banks valuation

Banks	Tickers	Market cap (USD bln)	Total assets (USD bln)	PER	P/B	Available room
Vietcombank	VCB	12.8	48.2	22.9	3.9	6.1%
BIDV	BID	5.9	60.1	24.1	2.3	26.6%
Techcombank	TCB	3.4	15.5	6.1	1.4	0.0%
Vietinbank	CTG	3.3	50.8	14.5	1.1	0.0%
Military Bank	MBB	2.0	17.3	8.1	1.4	0.0%

(Source: AFC Research, HSX, HNX)

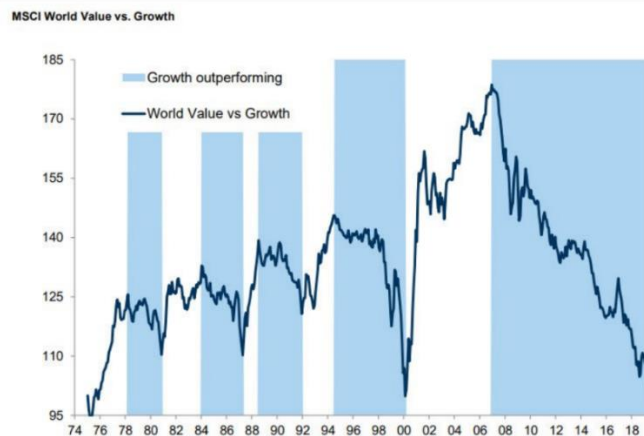
Other banks in the region trading at much cheaper valuations as well, like for example Thailand's Bangkok Bank at 10x earnings, 0.8x book value, 11% of total assets, or Lao's leading bank BCEL at only 3x earnings, 0.6 book value and 3% of total assets.

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Unlike in developed countries, the banking sector is still growing in countries like Vietnam. Consequently, many international banks are looking into this opportunity and buying stakes in Vietnamese banks to participate in the growth story. It doesn't always pay off as history shows, as the banking business is exposed to several risks, including potential write-offs in the case that large borrowers should go bankrupt, exposure to the volatile real estate market, and sometimes even fraud, as we have witnessed in the past. But the biggest problem with investing in banks is usually the missing transparency in order to be able to assess those risks. Sudden credit quality problems are a common issue around the globe and of course also in developing countries like Vietnam. Some banks are still dealing with their bad loan problems from the past crisis, which must also sound familiar to some investors in Europe.

We are not against investing in Vietnamese banks, but we are very carefully evaluating the risk/reward ratio in this sector, although in Vietnam like in most other markets, financials are index heavyweights. Besides the problems foreign investors face, banks like all other sectors seem to only be loved if they are big and show growth, regardless of valuation. We discussed this phenomenon already in our last report, but one chart shows very well how far this "growth bubble" has gone now - and cycles are called cycles because they are changing over time...

Goldman Sachs The record outperformance of 'Growth' vs. 'Value'



(Source: Goldman Sachs)

The tide might turn very soon, or not, but we are prepared with good value stocks in our portfolio and in the meantime, we show a low risk profile in our fund, as can be seen from our fund statistics.

Airline business becomes hotter and hotter

Bamboo Airways officially joined the aviation market a few months ago to become the fifth airline in Vietnam, after Vietnam Airlines, Jetstar Pacific, VASCO and Vietjet. The attractive airline market seduces many investors to jump in, not only local but also international. With a population of nearly 100 mln people, Vietnam's aviation industry is one of the most attractive and fastest growing sectors mainly due to the following reasons:

- The rapidly rising middle class has a huge impact on higher mobility
- Tourism in Vietnam is booming and there were more than 15 mln arrivals of international visitors in 2018.
- The market for private airlines in Vietnam is still very young and shows huge potential. Until a few years ago, the three state owned airlines had a monopoly and were considered as expensive and not very innovative and dynamic, unlike the new players entering now this market.

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- With the topography of Vietnam and no real alternatives, air travel is the only reasonable way to move around the country. The train system is old; and we mean *really* old and inefficient with 2 day's travel time from the north to the south. A highway from Hanoi to Saigon is planned but will take some – and in practice – many years to be finished. And seriously, who wants to go almost 2,000km between the two biggest cities by car for whatever reason?

Bamboo Airways, which belongs to FLC Group, a real estate and development company, which is listed on the Ho Chi Minh City Stock Exchange, recently announced that they are targeting a 30% domestic market share by 2020, which sounds very ambitious. They also plan to raise USD 100 mln through an IPO in order to fuel their aggressive expansion plans. Bamboo Airways now operates 10 aircrafts on 25 domestic and international routes. They also expect to be the first Vietnamese carrier to operate direct flights to the U.S. in late 2020.

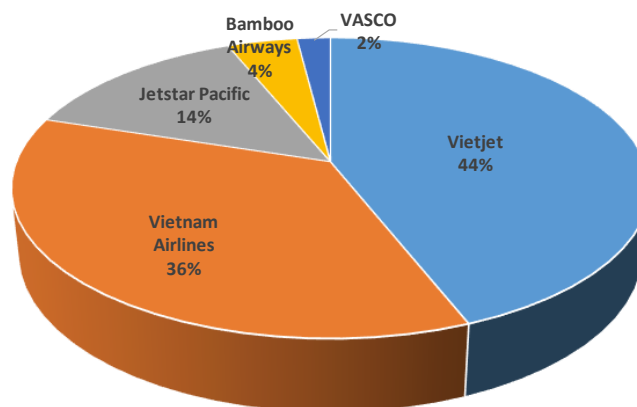
Bamboo Airways



(Source: Bamboo Airways)

According to the Civil Aviation Administration of Vietnam, Vietjet (VJC) had 44% of the domestic market in the first half of 2019, followed by Vietnam Airlines with 35.9%, Jetstar Pacific with 13.9%, Bamboo Airways with 4.2% and VASCO 2%.

Market share in 1H/2019



(Source: CAAV, AFC Research)

Vietnam Airlines currently operates around 100 aircrafts, Vietjet 68, Jetstar Pacific 15, Bamboo Airways 10 and VASCO 5.

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Besides Bamboo Airways, Vingroup has also announced their plans to set up Vinpearl Air and the tour operator Vietravel plans to launch its own airline Vietravel Airlines both by 2020. AirAsia, the Malaysian low-cost carrier, also has plans to increase their flights to Vietnam. It seems that the Vietnamese aviation space is a very sought-after, but is Vietnam's already overloaded aviation infrastructure ready to take on this challenge?

Ho Chi Minh City's and Hanoi's airport are already crowded, running at more or less full capacity (HCMC more than Hanoi), and new airlines are therefore setting up their base in 2nd and 3rd tier cities like Bamboo Airways, which is based in Quy Nhon. With intensifying competition, pricing pressure led some airlines to try and get rid of expensive, experienced foreign pilots and recruit local pilots in big numbers which are simply not available overnight. Bamboo Airways is currently even setting up an aviation academy while other companies are also investing in that field to battle shortages of not only pilots, but also airplane maintenance staff and air traffic controllers.

Shortages in almost every respect are the main reason why especially domestic flights are notoriously re-scheduled, delayed or simply canceled. If you have ever booked domestic flights in Vietnam you will probably know very well what we mean!

Economy

GDP in the first nine months of 2019 reached 6.98%, the highest in 9 years, according to General Statistic Office of Vietnam. It expanded in the third quarter by 7.31%, compared to 6.82% in the first quarter and 6.73% in the second quarter. Exports rose 8.2% in the first nine months of 2019 from the same period in 2018, while imports climbed 8.9%.

Macroeconomic Indicators				
	2016	2017	2018	Sep-19
GDP	6.21%	6.81%	7.08%	6.98%
Industrial production (YoY)	7.5%	9.4%	10.2%	9.6%
FDI disbursement (USD bln)	15.8	17.5	19.1	14.2
Exports (USD bln)	176.6	213.8	244.7	194.3
Imports (USD bln)	174.1	211.1	237.5	188.4
Trade balance (USD bln)	2.5	2.7	7.2	5.9
Retail sales (YoY)	10.2%	10.7%	11.7%	12.7%
CPI (YoY)	4.74%	2.62%	2.98%	1.98%
VND	22,600	22,755	23,175	23,260
Credit growth (YoY)	16.5%	17.0%	13.9%	8.4%
Foreign reserves (USD bln)	41	51	60	70

(Source: GSO, SBV, VCB, AFC Research)

Subscription

The next subscription deadline will be 25th October 2019. 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 30th September 2019

NAV	1,830*
Since Inception	+83%*
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%	-2.0%*				+3.0%*

*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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