

## 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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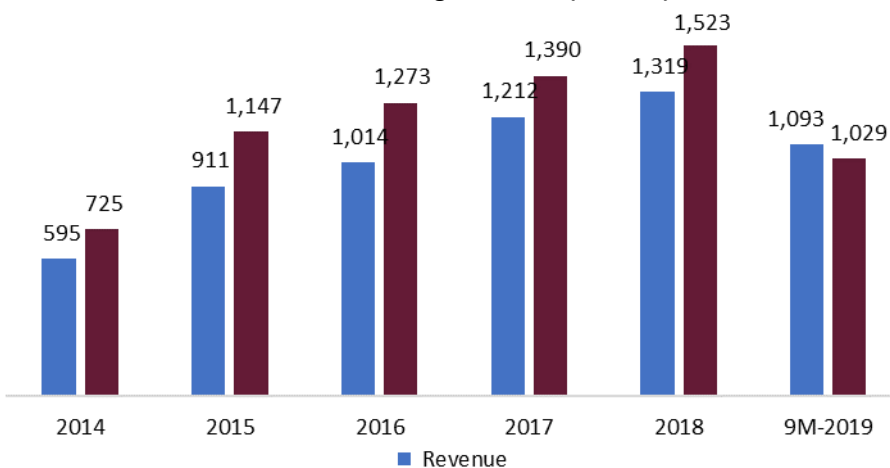
December began on a negative foot in all market segments, but losses were limited on relatively light volume and the market was able to rebound a bit. The HCMC Stock Index lost -0.5%, while Hanoi gained 0.4%, with small- and mid-caps mixed on negative market breadth. In this market environment we also experienced a loss in our NAV of -0.7% (USD 1,737), according to internal calculations.

### Market Developments

The government just released their latest numbers on government expenditure which has proven to be one of the main factors behind weak business results for many sectors this year. Unlike the ongoing trade disputes, which luckily didn't affect Vietnam but impacted many other countries, the weak business environment for many companies is almost completely homemade by (missing) political decisions which also hurt the sentiment in the overall stock market. Of course, we also saw some exceptions, particularly banks, which showed continued good results this year since they were not negatively affected.

While the majority of economic indicators are still very positive and many of them even surprised to the upside, some of these positive numbers were also part of the problem for many companies this year. For example, as of mid-November the state budget revenue amounted to VND1,299tln (USD 56.5bln, +12.0% YoY), achieving 92% of the 2019 forecast. At the same time, state expenditures fulfilled only 74% of the annual target as expenditures for investment and development dropped 4.6% YoY and saw only 53% of the full-year plan accomplished.

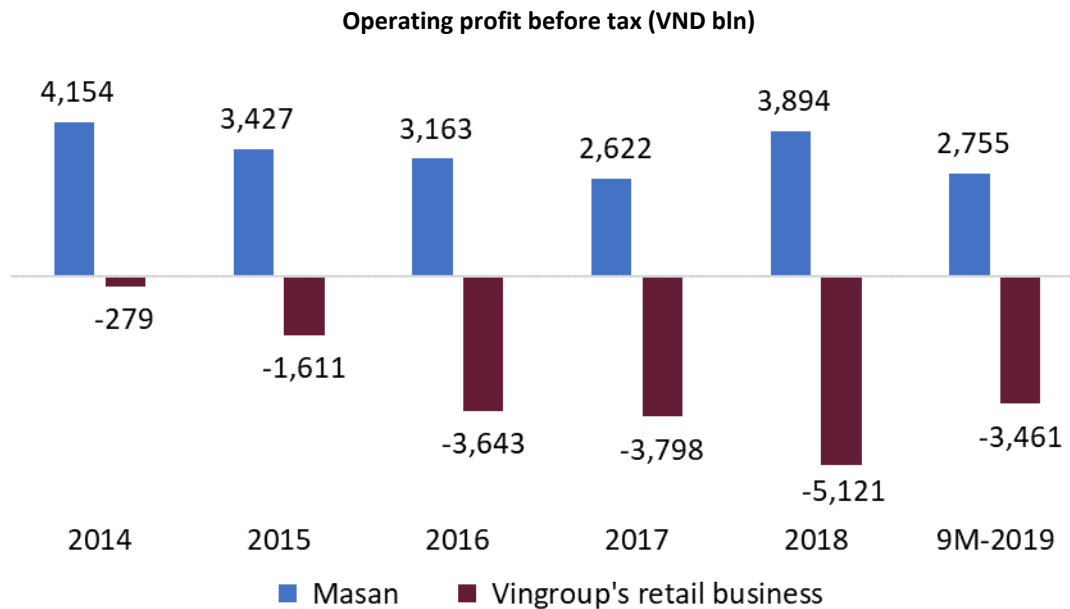
**Vietnam State Budget Balance (VND tln)**



(Source: Vietnam Government, Chinh Phu)

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Vietnam's economy is doing very well and the government is making proactive decisions to lure more foreign investment into the country, but like in many other countries economic growth is not evenly distributed through different sectors and sector-specific growth is no guarantee of rising profits. Like in the fast-growing retail market, we see that even leaders of this sector are sometimes unable to make money or to capture the growth, as we have already written in our last report. The retail/consumer arm of two giant private companies just made an M&A announcement last week which shows that even these two big companies leading in their fields are facing problems despite a fast-growing market. Foreign companies like the usually very successful retailer 7-Eleven are also an example that success in the home country cannot be easily replicated in other countries.



*(Source: Masan, Vingroup, VCSC, AFC Research)*

In our view it is very risky to bet that today's index leaders will continue to outperform in the future. We have seen too often over the past few years that previous "stars" which were bought heavily, especially by foreign investors, lost their valuation premium for different reasons over time. Examples include Vinamilk (VNM), VPBank (VPB) and Hoa Phat Group (HPG). With many companies having a good chance to recapture growth next year if the government decides to lift its foot off of the brake pedal on expenditures, we see better earnings ahead in 2020 and hope that local investors will favour inexpensive stocks in terms of valuations. That in fact could trigger an improved market breadth which would help our portfolio tremendously, as it is composed of a wide range of sectors and companies instead of a concentration of current index leaders.

Market turnover recently fell by up to 50-60% in Hanoi and on UPCOM, compared to the 12-month average, while HCMC only held up better because of a few stocks which captured a big part of trading. Much lower turnover in the broader market could also be an indicator that market behavior could turn sooner than later, as has happened before when the market bottomed several times over the past 10 years. Coincidence or not, this turnaround always seems to occur around the end of the year. This is especially visible on the HNX-Index where many smaller companies are listed and the number of stocks has not changed much over the past few years.

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## HNX Index from May 2010 to Dec 2019



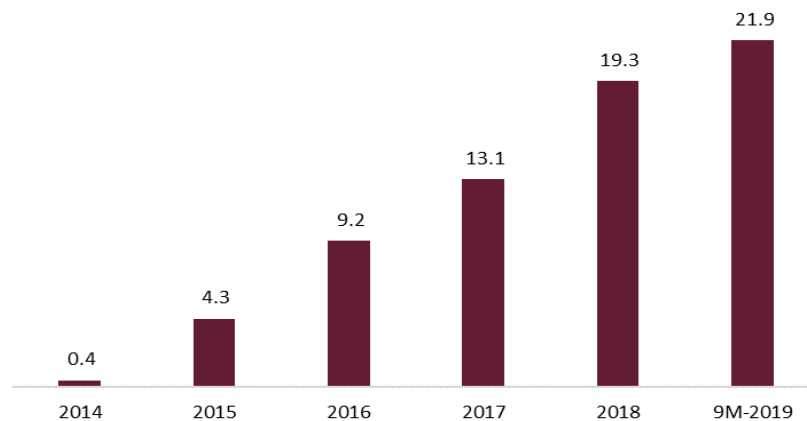
(Source: Viet Capital Securities)

### Vingroup gives up retail business to focus on car industry?

The merger between Vin Commerce, the retail business of Vingroup, with Masan Consumer Holding becomes one of the most notable events of the Vietnamese stock market in 2019. Masan Consumer Holding is one of the largest consumer companies in Vietnam with a many strong brands such as Chin-su, Vinacafe, Nam Ngu, Wake-up, Omachi and Vinh Hao Mineral Water. Meanwhile, Vin Commerce is the largest retail chain in Vietnam with more than 2,600 stores in 50 provinces. According to Vingroup CEO, Mr. Nguyen Viet Quang, Vin Commerce will swap shares with Masan Consumer Holding, which means Masan Consumer Holding has not paid a single penny to Vingroup yet, however, we think Vingroup will sell its shares in the new company to Masan Group sooner or later to finance its giant car project, Vinfast.

Vin Commerce was set up 5 years ago with the brand Vinmart and Vinmart+. Retail business became one of the most important businesses of Vingroup with 25% of total group revenue and it grew from VND 0.4 tln in 2014 to VND 19.3 tln in 2018 and VND 21.9 tln in the first 9 months of 2019.

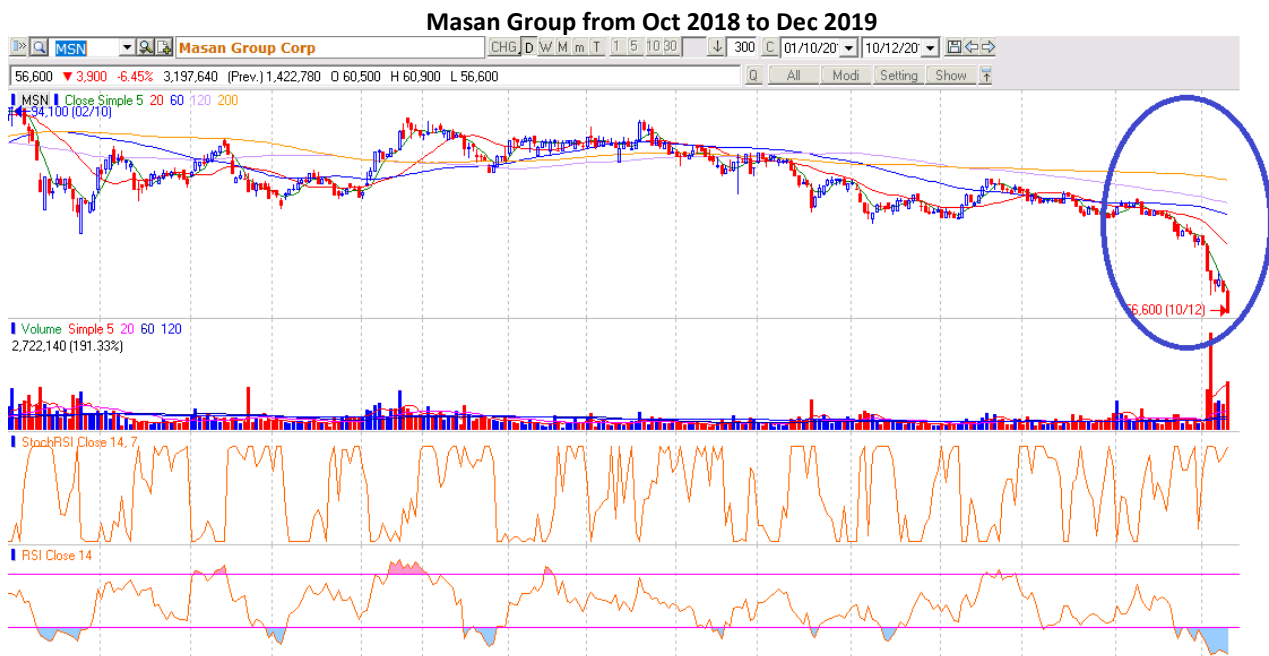
### Revenue of Vingroup retail business (VND tln)



(Source: Vingroup consolidated financial report, AFC Research)

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The growth of Vin Commerce attracted some large investors such as GIC from Singapore and Credit Suisse. In September 2019, GIC and Credit Suisse invested USD 500 mln into Vin Commerce for a 16.26% equity stake, which gives the company a valuation of around USD 3.07 bln. With more than 2,600 stores around the country and millions of loyal and premium Vin Commerce customers, Masan will benefit by distributing its products to customers across Vietnam. However, Masan's shareholders are not so excited about this deal, since the operating loss of Vin Commerce worries them, which is also the reason why the share price of Masan tumbled recently.



(Source: HOSE, VCSC, AFC Research)

Many investors suspect that Vingroup's reason for doing this merger is to improve its retail business in cooperation with one of the largest consumer companies in Vietnam, Masan, but maybe they just want to focus on their new car production and industrial and technology businesses. Vingroup will continue to need a lot of capital to finance that and hence will probably sell their non-core businesses. Mr. Pham Nhat Vuong, Chairman of Vingroup, recently mentioned in a Bloomberg interview that he plans to sell 10% of his personal shareholding in Vingroup in order to finance their car business Vinfast. He expects that Vinfast will not make any profit in the next 5 years, but he plans to sell its cars to the US market in the foreseeable future.

### Subscription

The next subscription deadline will be 23<sup>rd</sup> December 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 15<sup>th</sup> December 2019

NAV	1,737*
Since Inception	+73.7%*
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%	<b>+2.37%</b>
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%	<b>+32.50%</b>
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%	<b>+4.62%</b>
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%	<b>+15.29%</b>
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%	<b>+13.33%</b>
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%	<b>-4.17%</b>
2019	USD	-1.63%	+2.90%	+1.58%	+0.82%	-3.35%	+1.98%	+1.18%	+1.63%	-1.89%	-2.34%	-1.59%	-0.7%*	<b>-2.2%*</b>

\*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.*

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