

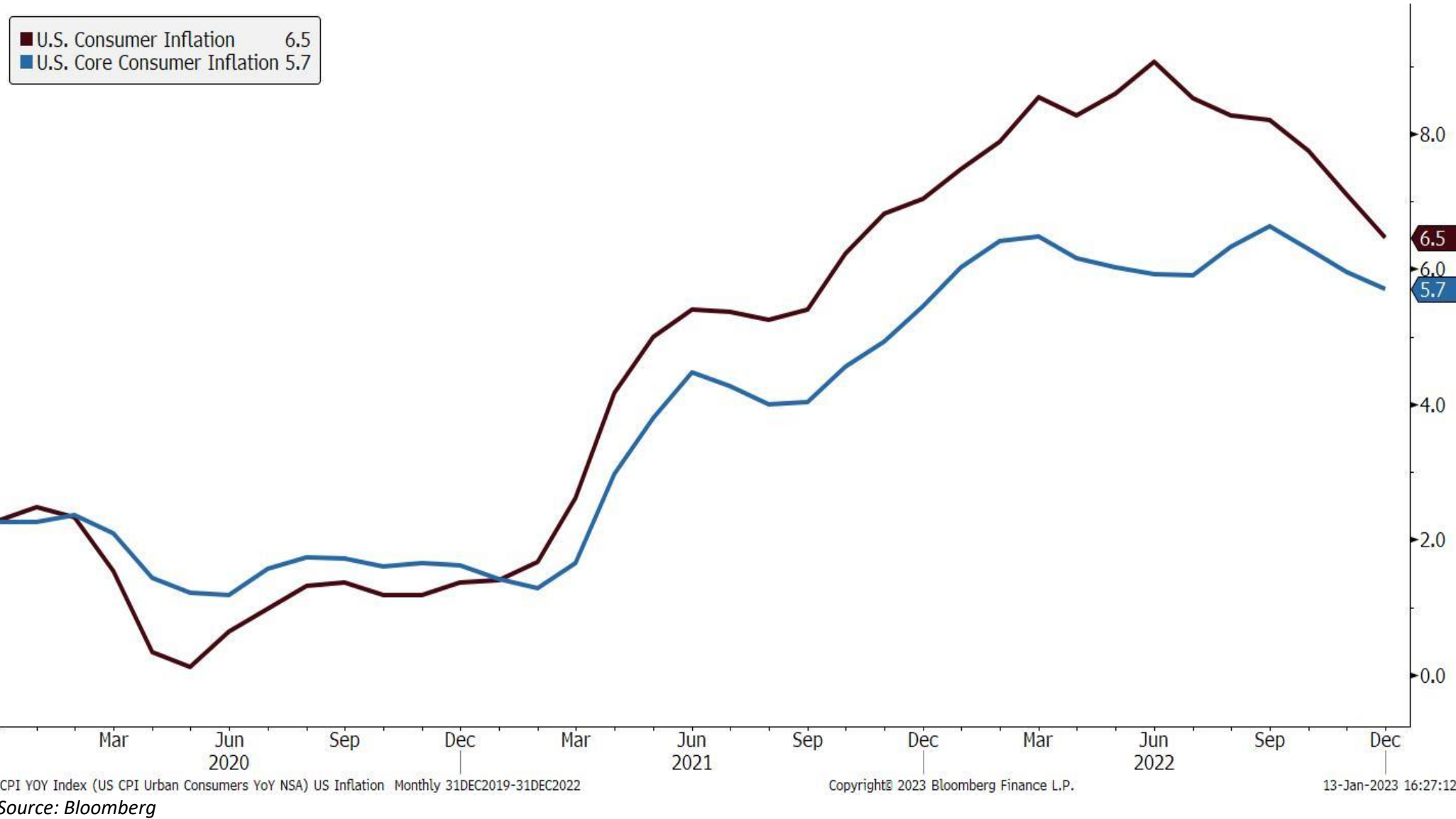


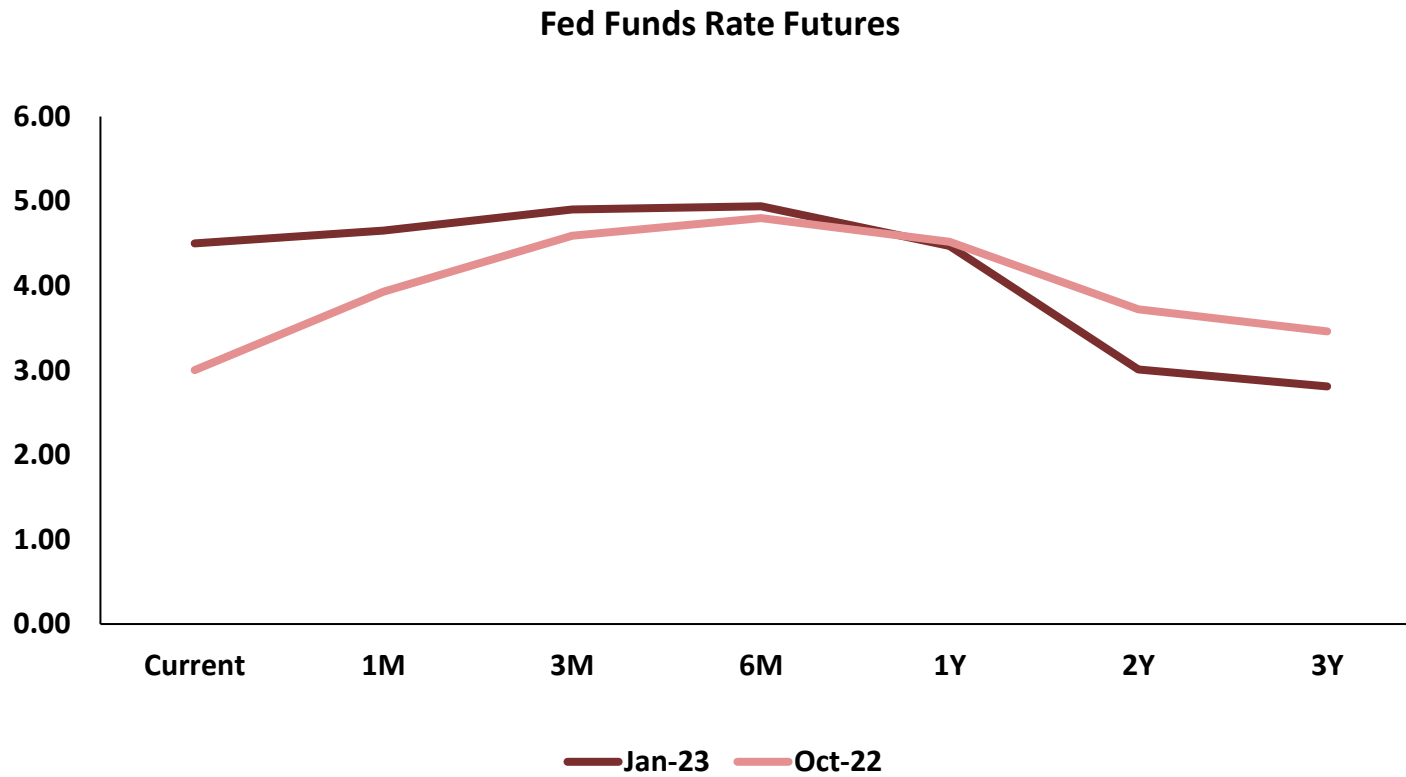
AFC Webinar  
January 2023

# **AFC Market Update – January 2023**

# AFC Asia Frontier Fund

The key is U.S. inflation...

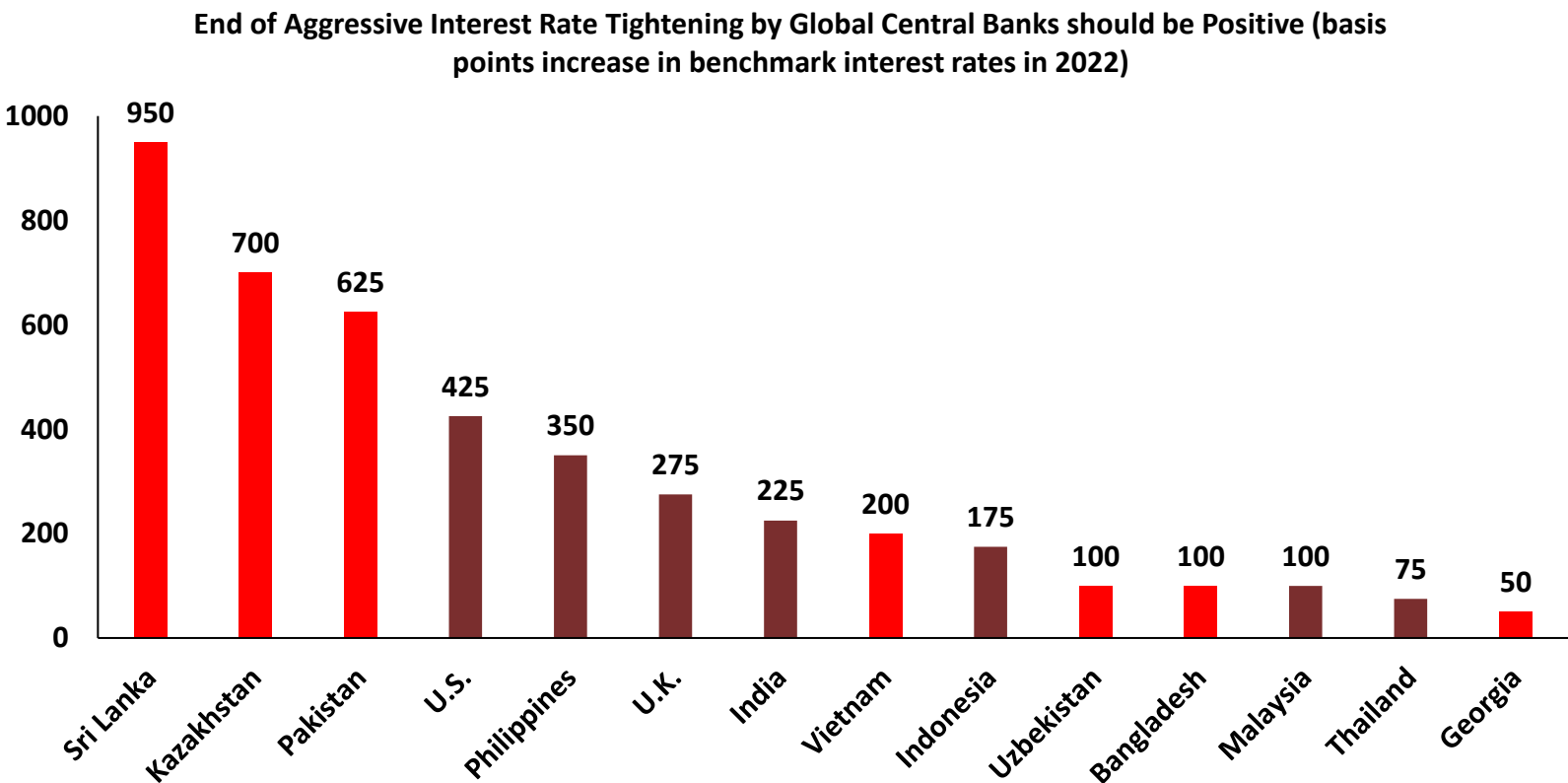




Source: Bloomberg

- We are done with aggressive interest rate hikes.

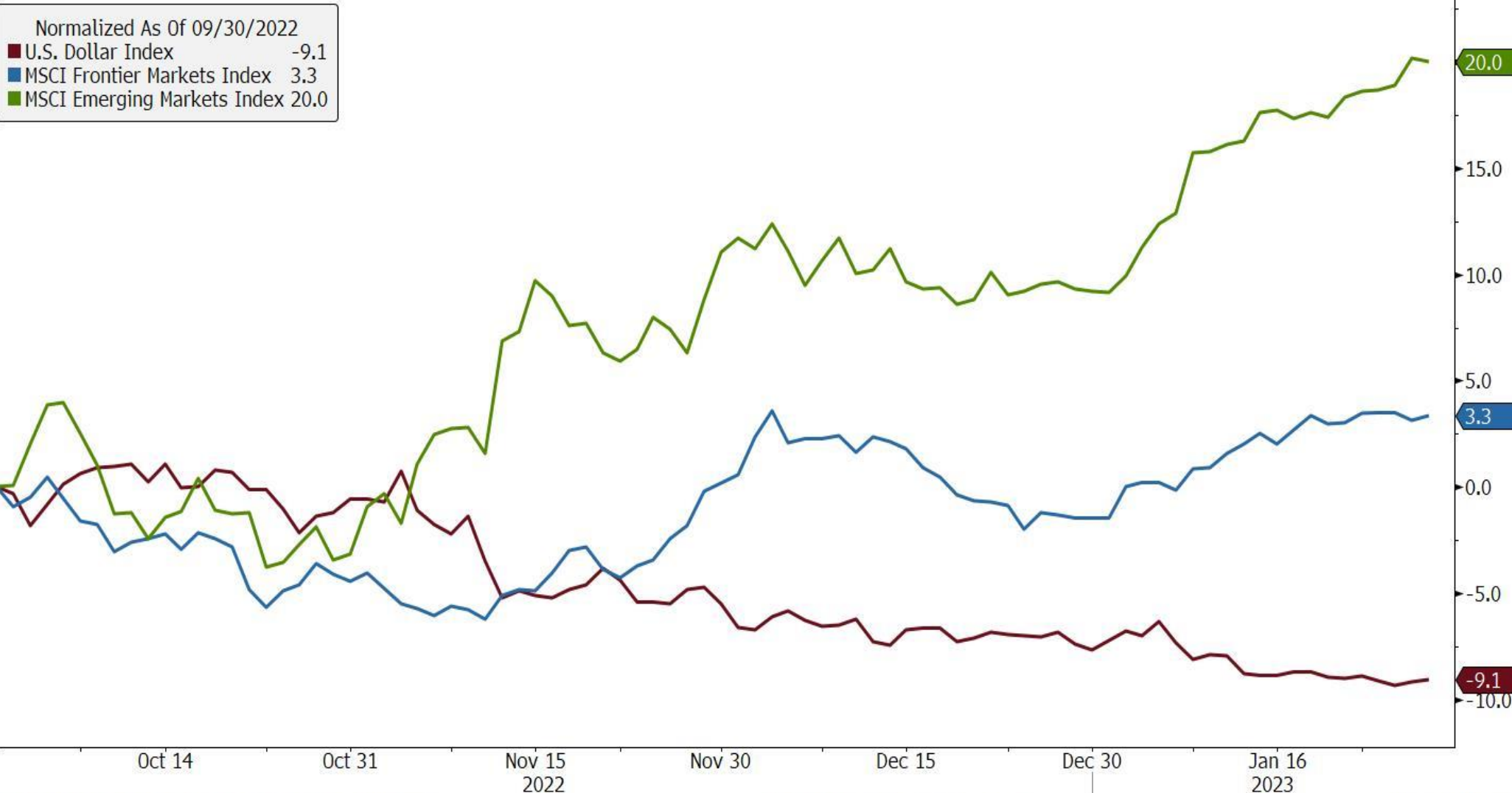
# Interest rates in most Asian frontier markets have peaked out



Source: Bloomberg

- Would not be surprising to see some central banks in our universe cut interest rates in second half of 2023.
- Most Asian Central Banks talking about a slower pace of hikes if any.

# A weaker U.S. Dollar will be positive for frontier and emerging markets

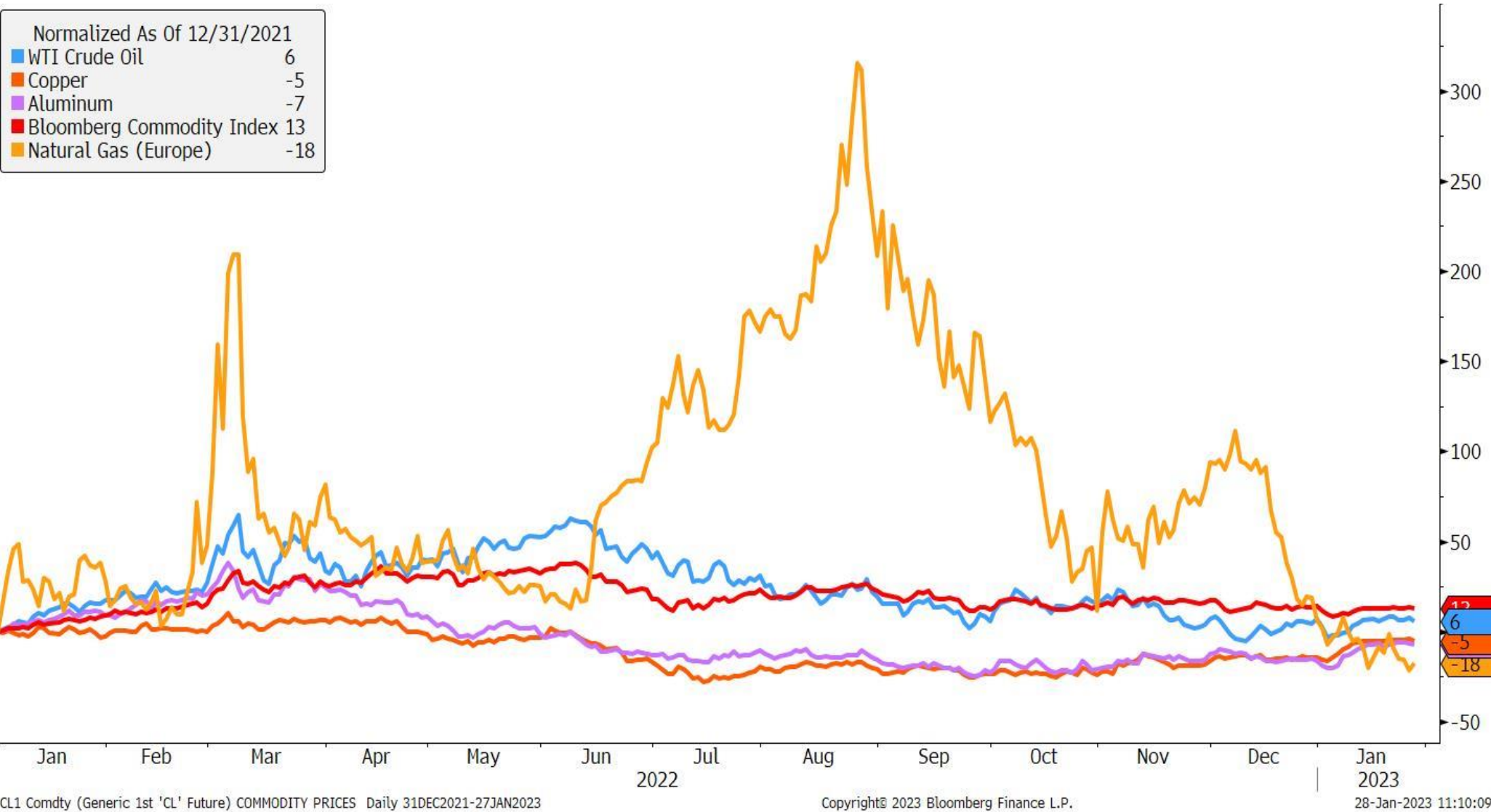


DXY Curncy (DOLLAR INDEX SPOT) DXY Daily 30SEP2022-27JAN2023  
Source: Bloomberg, % change in prices between 30<sup>th</sup> September 2022 – 27<sup>th</sup> January 2023

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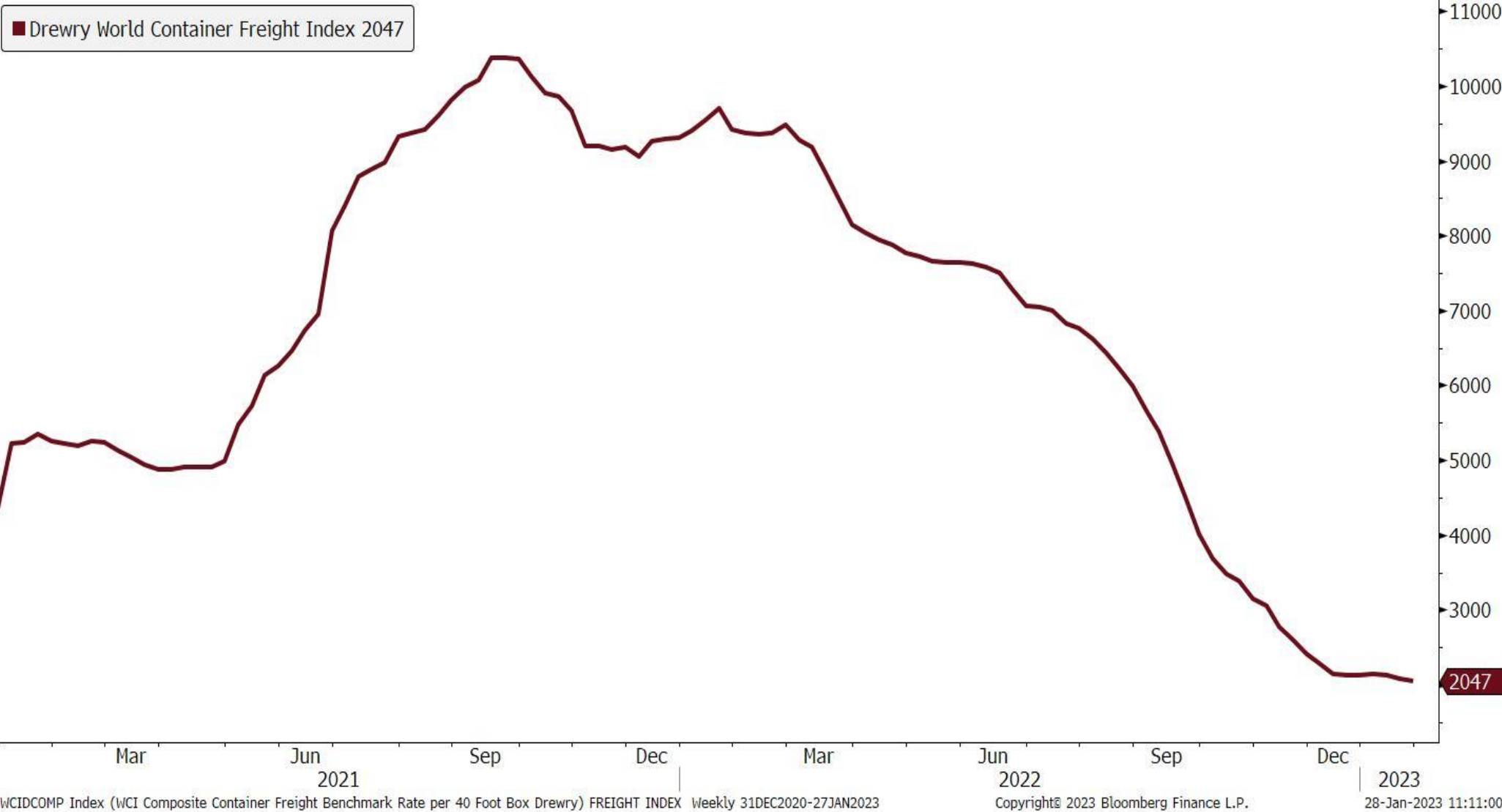
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# Commodity price pressures have eased

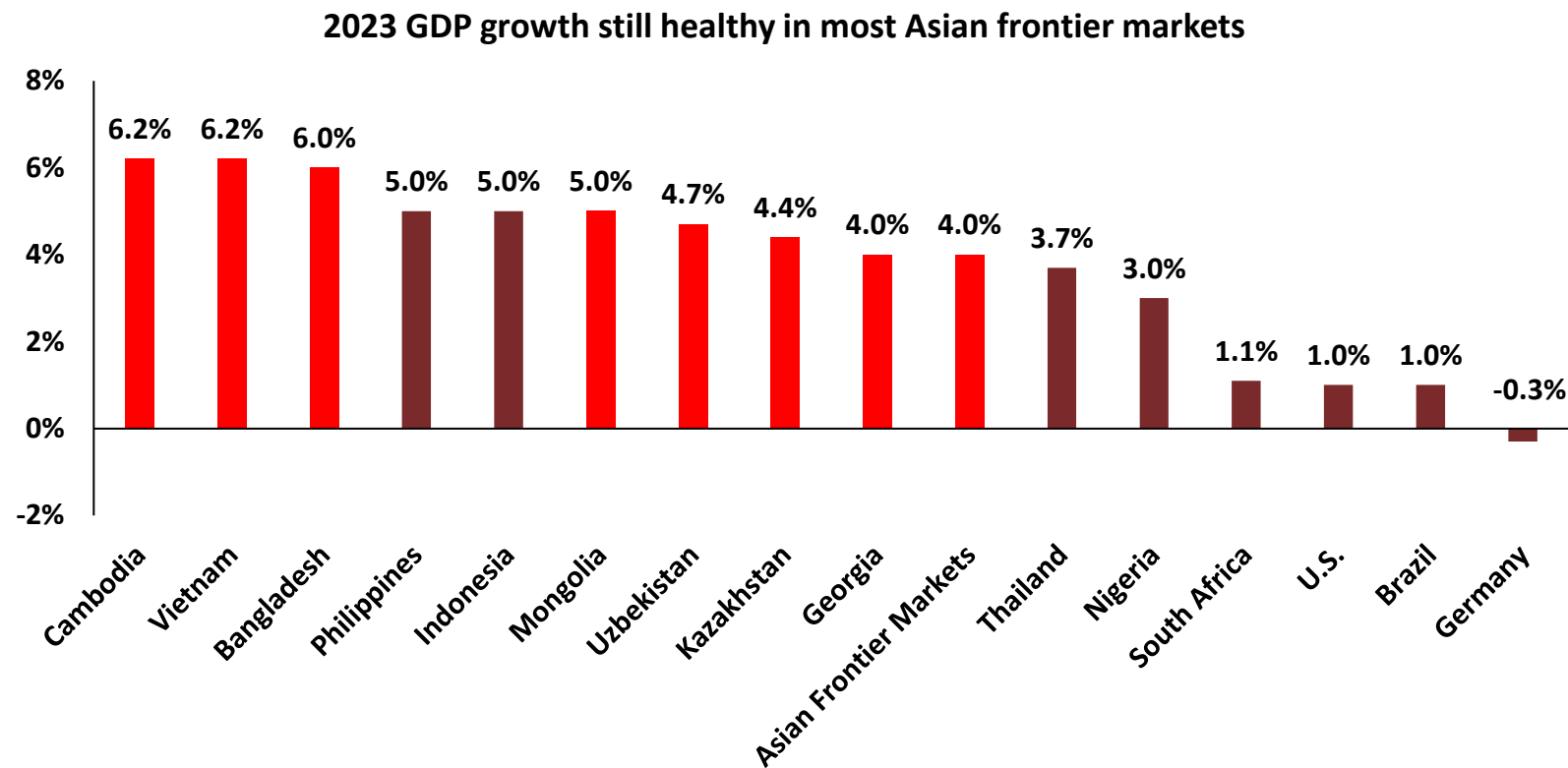


Source: Bloomberg, % change in prices between 31<sup>st</sup> December 2021 – 27<sup>th</sup> January 2023

# Freight costs have collapsed



# Asian frontier countries will manage healthy GDP growth

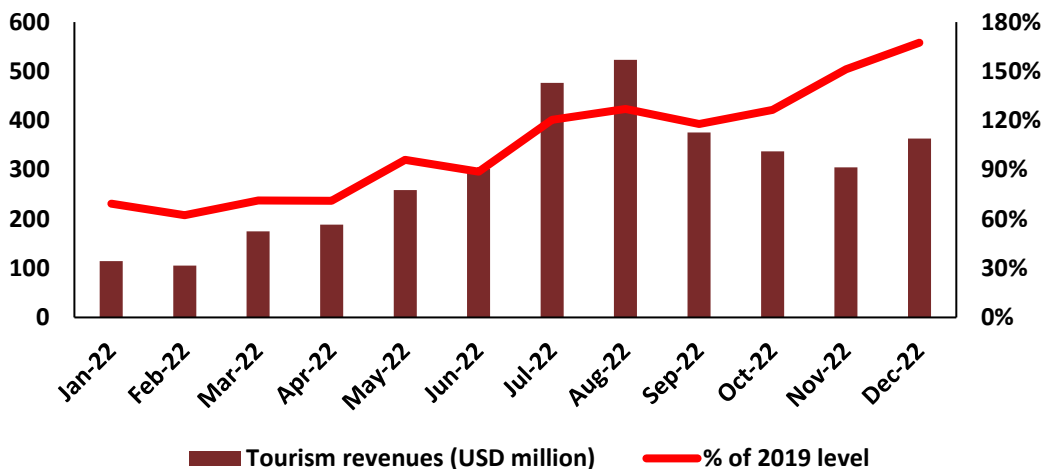


Source: International Monetary Fund

- Asian frontier countries still managing healthy economic growth in a slowing environment.
- Supply chain shift, infrastructure spending and demographics still favour Asian frontier markets.

# Supply chain diversification – Central Asia is gaining a lot

Georgia tourism revenues continue to increase post the Russia-Ukraine conflict



Source: Galt & Taggart

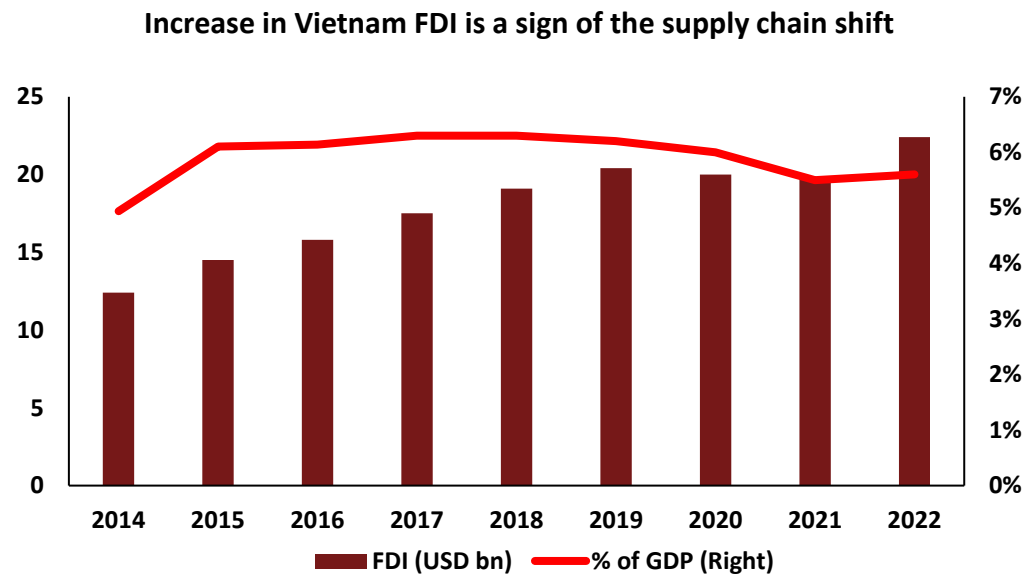
Trans-Caspian International Transport Route (TITR)



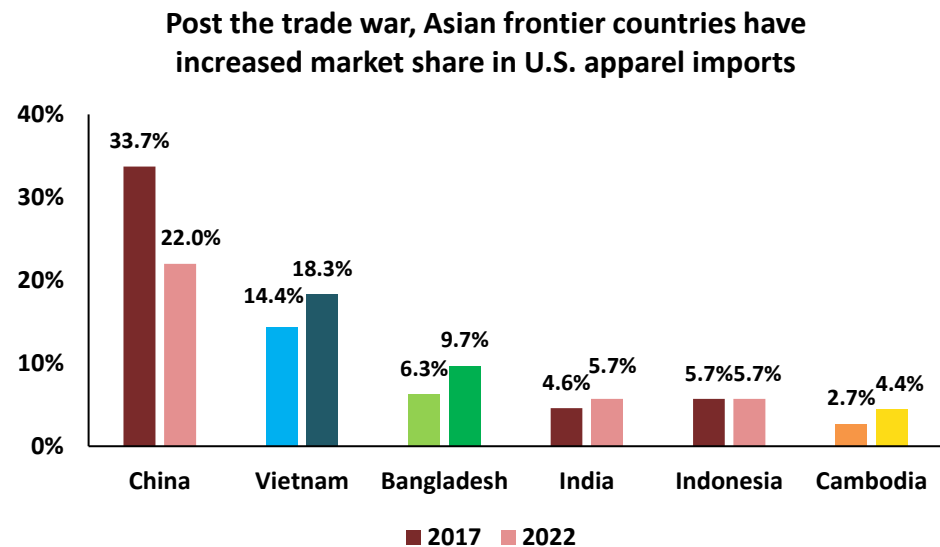
Source: [www.middlecorridor.com](http://www.middlecorridor.com)

- Georgia recorded GDP growth of 10.0% in 2022 – surpassing all expectations.
- The Trans-Caspian International Transport Route is seeing an increase in volumes.
- A lot of highly skilled professionals are moving to Georgia, Kazakhstan, and Uzbekistan.

# Asian frontier economies continue to benefit from trade diversion despite recession worries



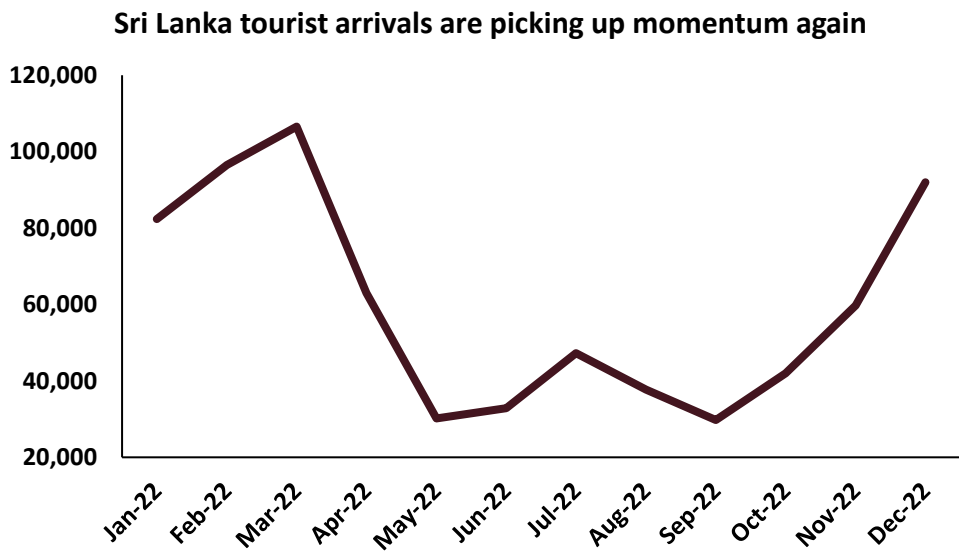
Source: Vietcapital Securities



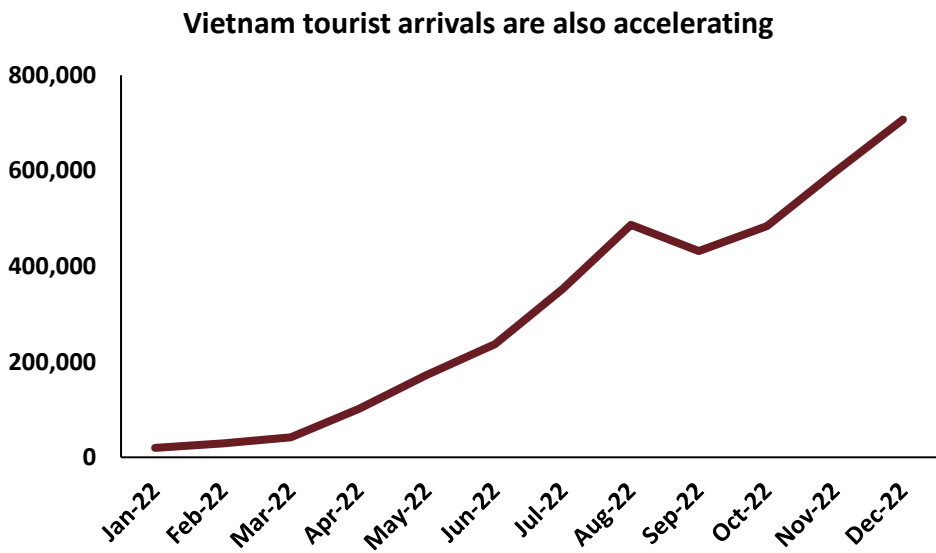
Source: U.S. Office of Textiles and Apparel Trade Data

- Bangladesh garment exports have grown by 16% in the last six months – benefits of supply chain diversification.
- Consistent foreign direct investment into Vietnam focused on the manufacturing sector.
- Apple and Samsung will start producing more higher end products in Vietnam.

# China re-opening and tourism can be a big theme in 2023



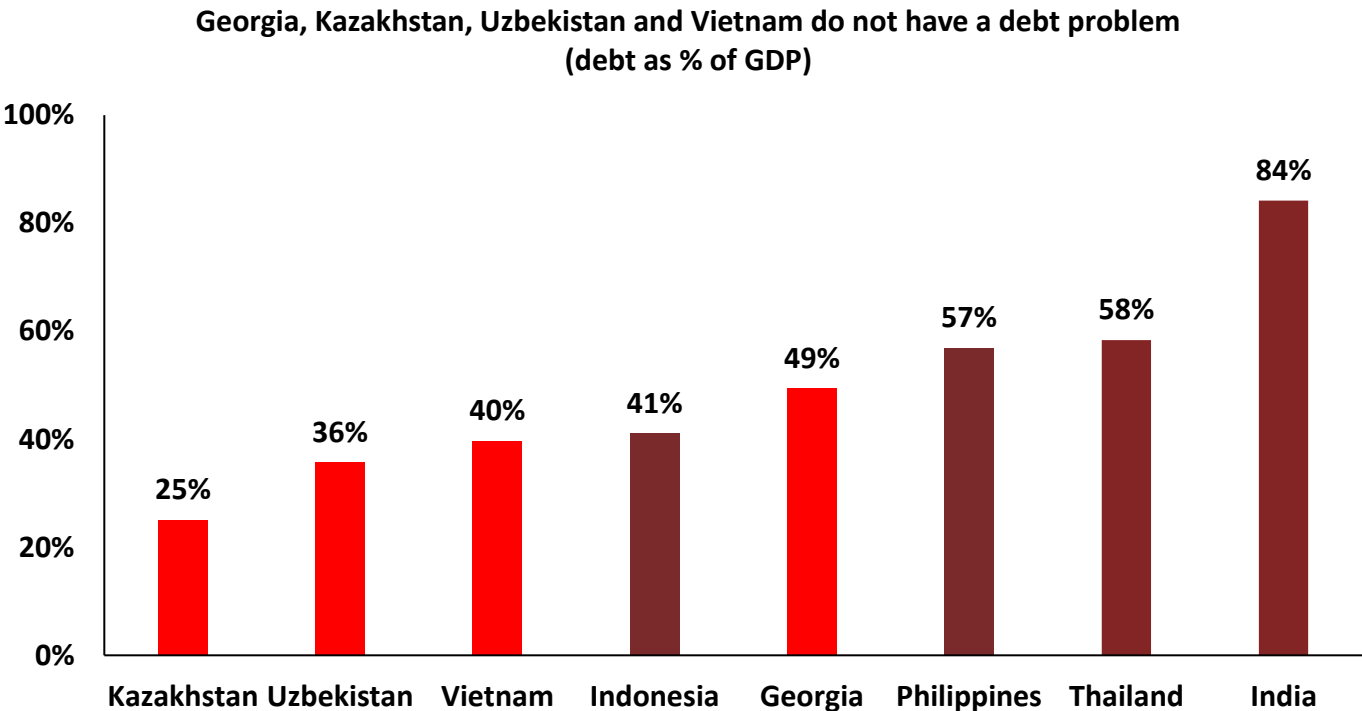
Source: Sri Lanka Tourism Development Authority



Source: SSI Securities

- 2023 can be the year of tourism recovery in Cambodia, Sri Lanka and Vietnam.
- Revival in Chinese tourist numbers can be a big bonus in 2023 especially for Cambodia and Vietnam.

# AFC Asia Frontier Fund Top Country Picks



Source: International Monetary Fund

- Georgia, Kazakhstan, Uzbekistan, and Vietnam all have both stable macro indicators and stable GDP growth.
- These countries are benefitting from the supply chain shift.
- Georgia, Kazakhstan, and Vietnam reported a current account surplus in their most recent quarter.
- We are bullish on Central Asia – trends are in its favor.

# AFC Asia Frontier Fund Top Picks – bottom-up valuations are too cheap to ignore

Blue-chip names in our universe extremely undervalued with impressive RoE's

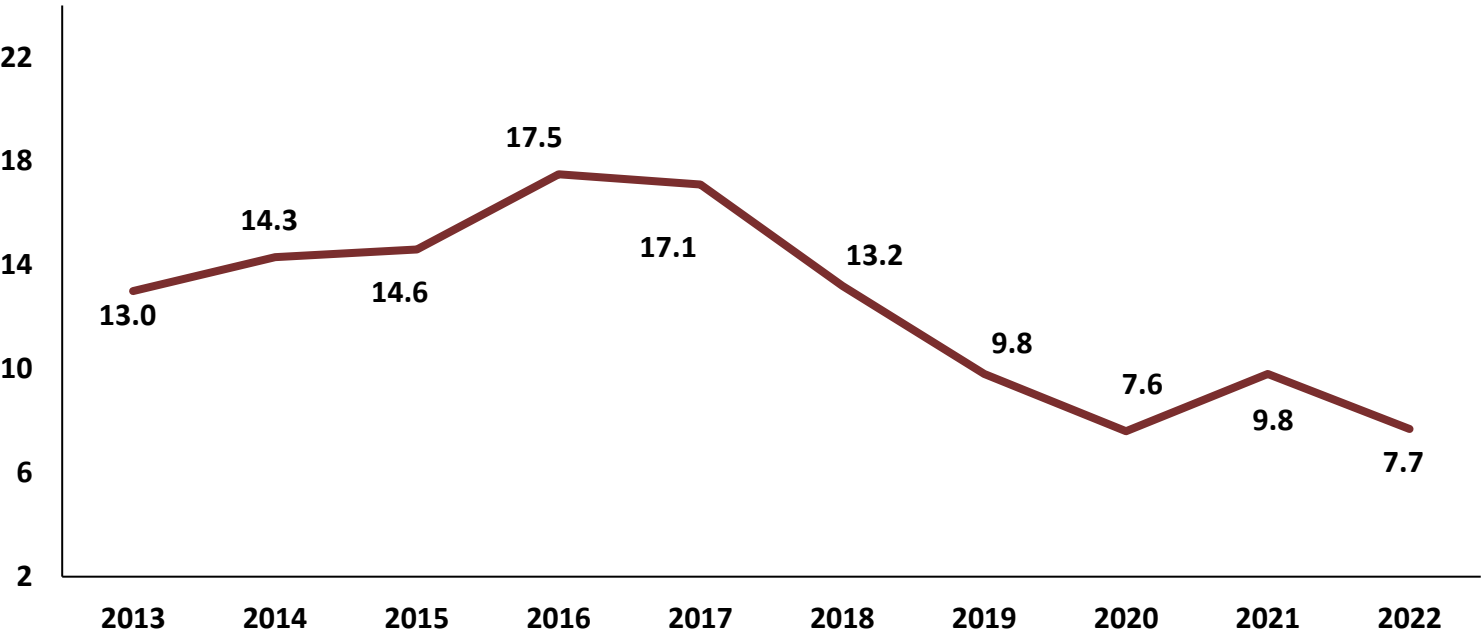
Ticker	Company	Country	Sector	Marketcap (USD mn)	2023 P/E	2023 EPS Growth	RoE (%)
HSBK LI Equity	Halyk Bank	Kazakhstan	Financials	2,907	3.5	-5.7%	31.1
LUCK PK Equity	Lucky Cement	Pakistan	Diversified	514	3.8	-3.6%	17.5
TBCG LN Equity	TBC Bank Group	Georgia	Financials	1,596	4.1	6.1%	25.6
STB VN Equity	Sacombank	Vietnam	Financials	2,143	5.4	82.6%	11.8
INDU PK Equity	Indus Motor	Pakistan	Consumer Discretionary	252	6.7	-25.0%	22.1
KSPI LI Equity	Kaspi	Kazakhstan	Fintech	14,052	8.8	26.1%	88.3
JOPH JR Equity	Jordan Phosphate Mines	Jordan	Materials	5,118	9.1	-38.6%	70.7
SQUARE BD Equity	Square Pharmaceuticals	Bangladesh	Healthcare	1,754	9.6	8.0%	18.2
BXPBAR BD Equity	Beximco Pharma	Bangladesh	Healthcare	624	12.1	6.9%	12.7
FPT VN Equity	FPT Corp.	Vietnam	Technology	3,930	12.1	17.8%	24.8
KAP LI Equity	Kazatomprom	Kazakhstan	Materials	8,035	12.7	31.9%	31.1
GMD VN Equity	Gemadept	Vietnam	Industrials	667	14.6	21.0%	14.2
PNJ VN Equity	Phu Nhuan Jewelry	Vietnam	Consumer Discretionary	1,315	14.7	13.8%	25.9

Source: AFC Research, Bloomberg

- Top picks have very strong fundamentals, pricing power and well-established brands.
- Many of our top picks will still show earnings growth in 2023.
- Valuations provide margin of safety.
- Our top picks are too cheap to ignore.

# AFC Asia Frontier Fund valuations at all time low – too cheap to ignore

AFC Asia Frontier Fund P/E ratio is well below its peak



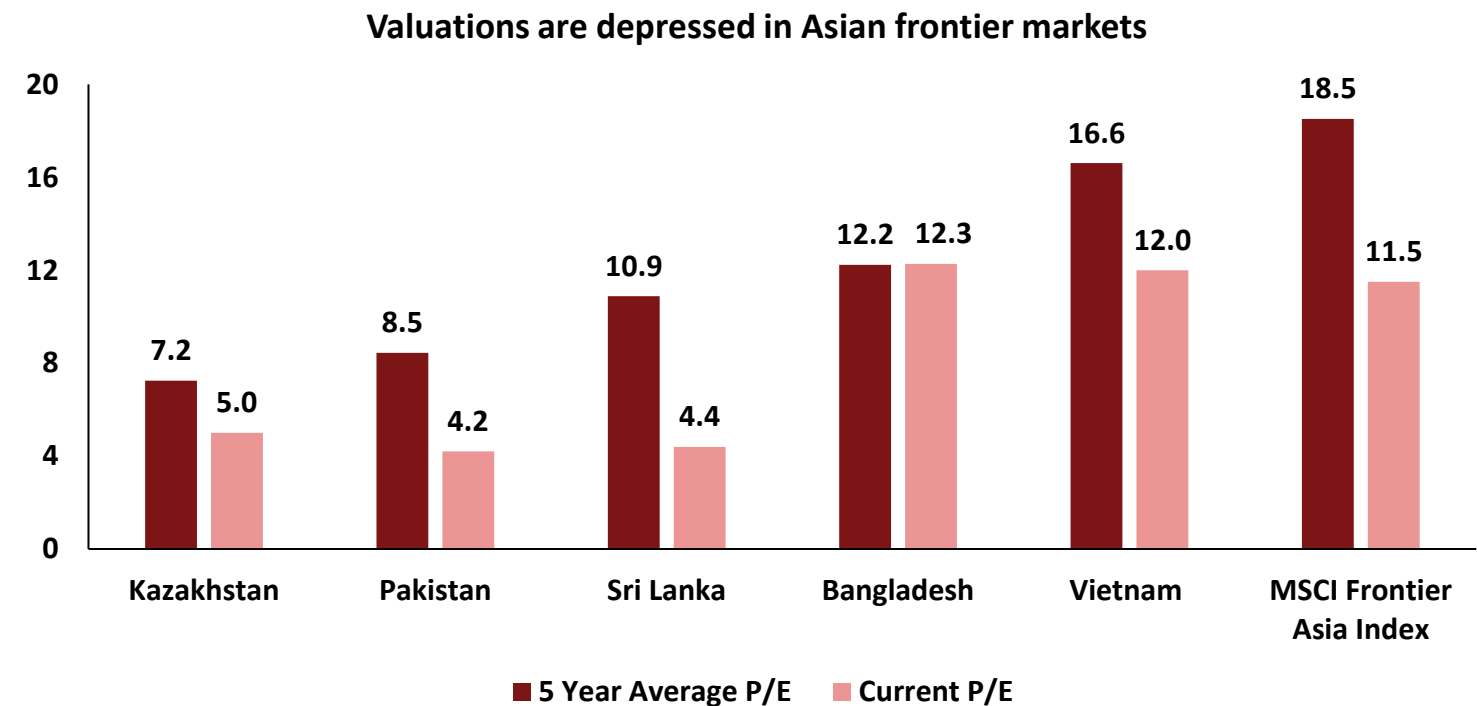
Source: AFC Research

P/E Ratios	
Pakistan	4.2
Sri Lanka	4.4
Kazakhstan	5.0
<b>AFC Asia Frontier Fund</b>	<b>7.7</b>
Vietnam	12.0
Bangladesh	12.3
Indonesia	13.3
Philippines	16.4
India	22.1

Source: Bloomberg

- AFC Asia Frontier Fund P/E ratio at pandemic low of 2020.
- Interest rate cycle turning will be key trigger for P/E multiples to expand.

# Asian frontier markets trade at a big discount to history



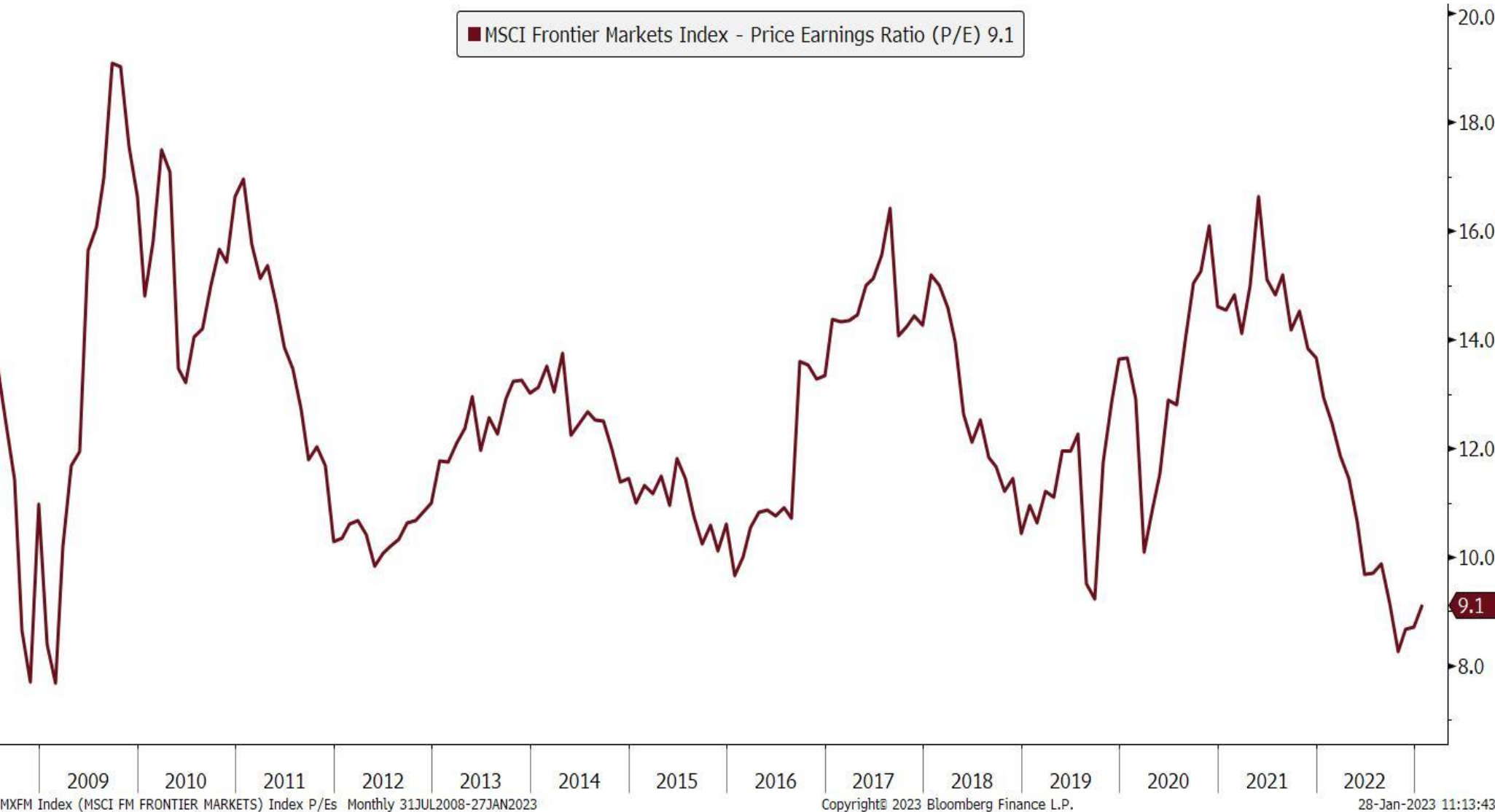
Source: Bloomberg

- If domestic investors re-enter the market, there could be a strong re-rating.
- Any positive momentum can lead to re-rating in multiples given their depressed valuations.

# Asian frontier markets P/E ratio trading at big discount to S&P 500 – too cheap to ignore



# Frontier market valuations at 2008/2009 global financial crisis levels



Source: Bloomberg, as of 27<sup>th</sup> January 2023

AFC Asia Frontier Fund portfolio fundamentals are solid

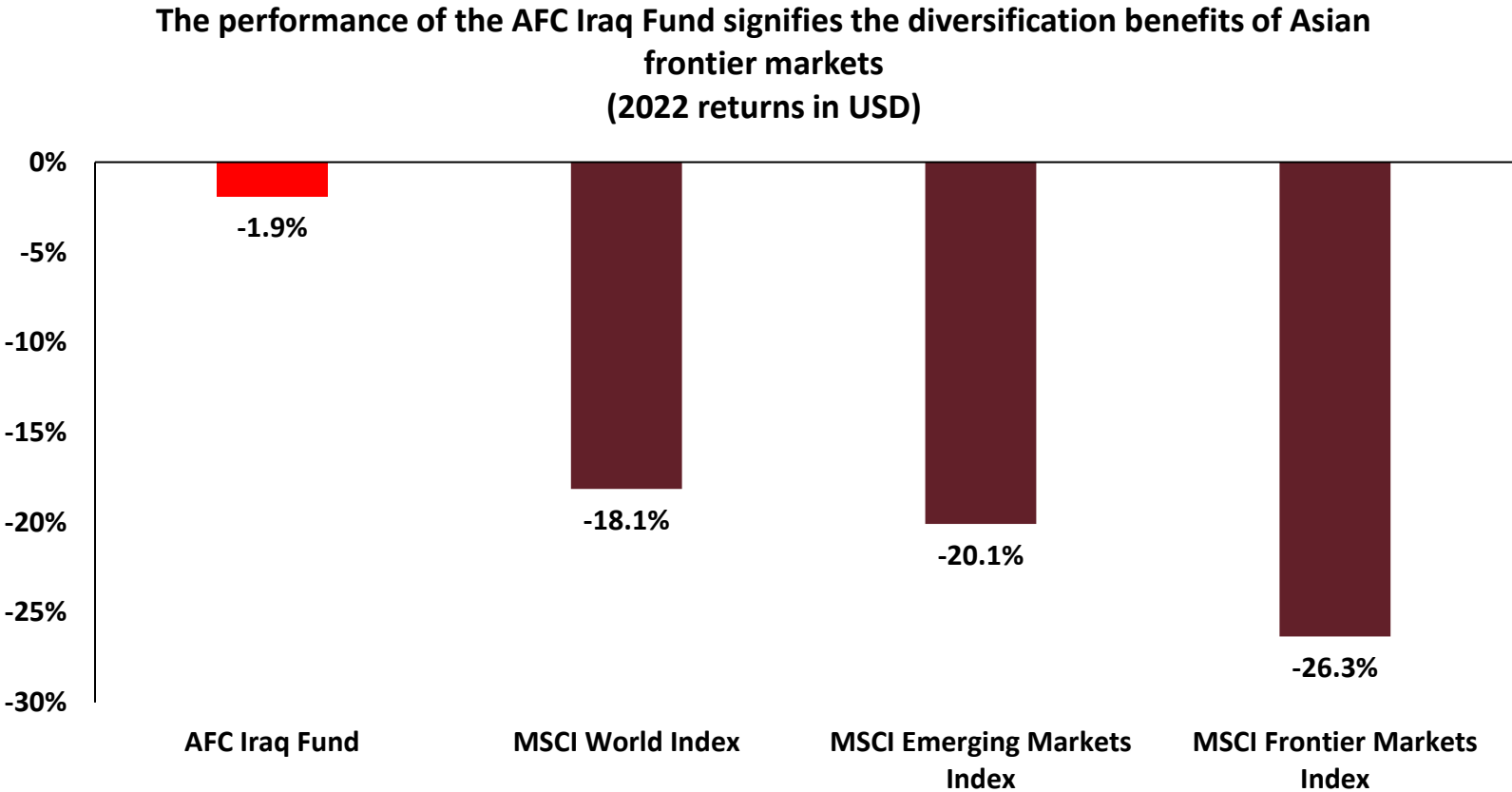
P/E	P/B	P/Cash Flow	Dividend Yield	Return on Equity	Debt/ Equity ratio	Historical 3 Year Earnings CAGR
7.7	1.2	8.0	3.0%	25.9%	0.6	17.6%

Source: Asia Frontier Capital, Bloomberg, P/E is trailing 12 months

- We are done with the aggressive interest rate hikes – key headwinds are behind us.
- Investor talk in 2023 will be about lower inflation and peaking interest rates – this should be positive for sentiment.
- China re-opening can provide positive triggers for many Asian frontier markets.
- Portfolio fundamentals remain strong.
- Add risk with a 12-18 month view.

# AFC Iraq Fund

# AFC Iraq Fund – outperforming all global benchmarks in 2022 and starts the year strong

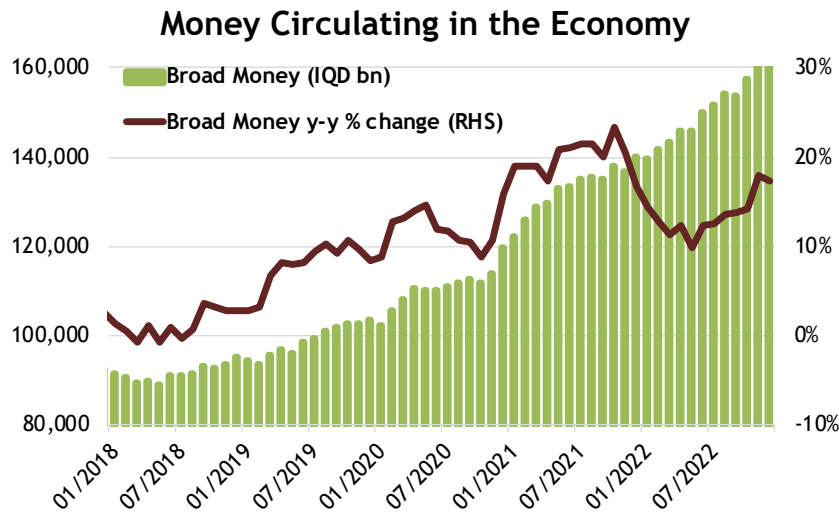
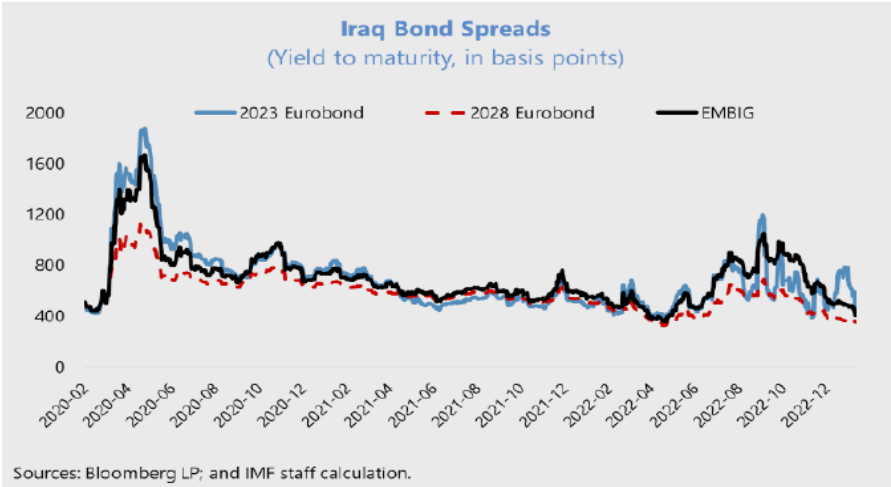


Source: Bloomberg

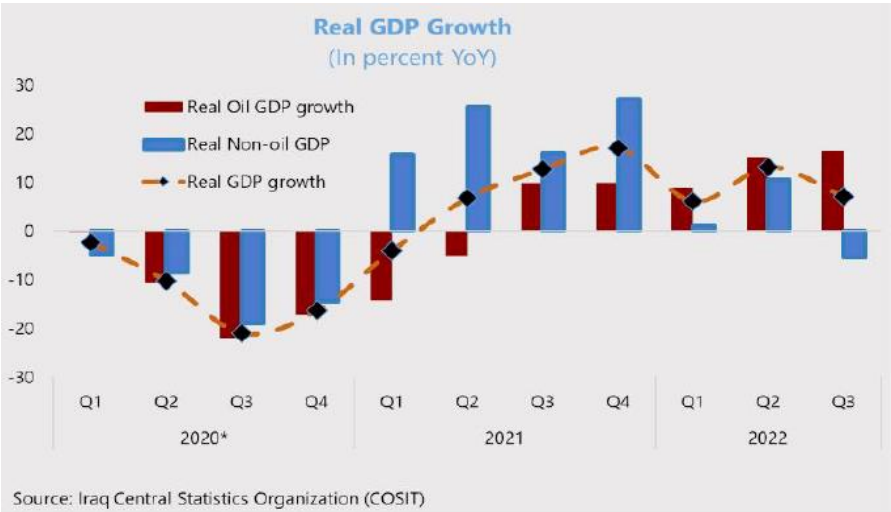
# AFC Iraq Fund – outperforming all global benchmarks in 2022 and starts the year strong

Unlike many other countries, Iraq is a net beneficiary of the changed commodity landscape following the Ukraine invasion

- New budget to be submitted to parliament is reported to be super expansionary - reportedly up 50% year-year.
- Resumed acceleration to near 20% y-y in the amount of money circulating in the economy, following a slower growth of around 10%. Should accelerate further following passage of budget
- Non-oil GDP declined in Q3/22 after a string of strong quarters, in-line with slow down in amount of money in the economy



Source: Central Bank of Iraq data as Nov. 2022, AFC Research estimates for Dec. 2022

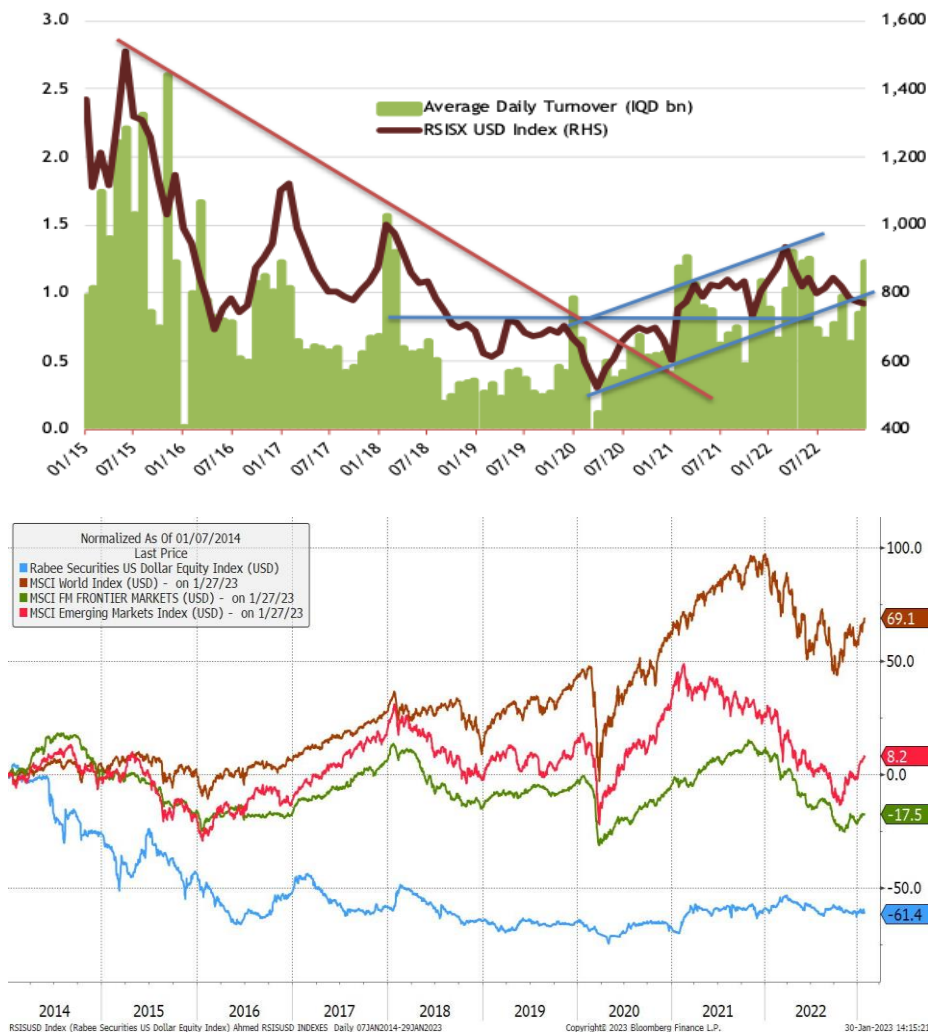


Source: IMF, Iraq Economic Monitor as of January 2023

# AFC Iraq Fund – outperforming all global benchmarks in 2022 and starts the year strong

## Iraq is just emerging from a brutal multi-year bear market

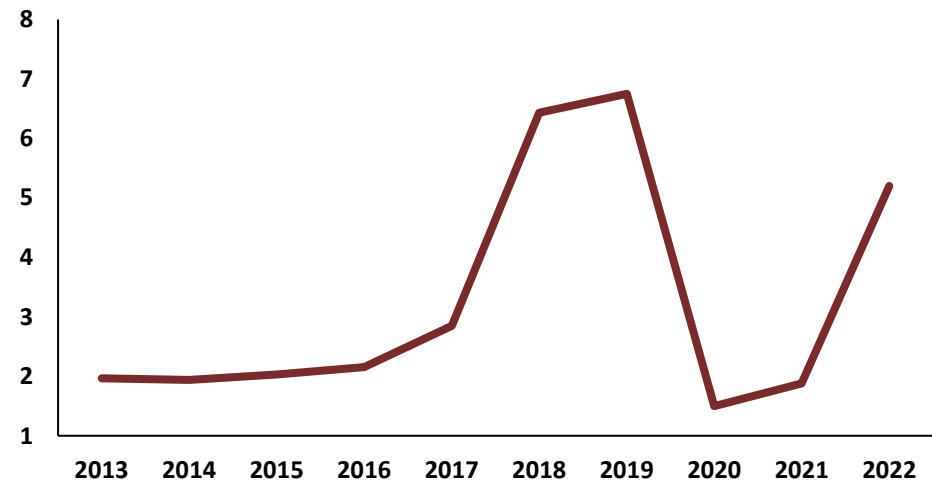
- The Iraqi equity market is in the process of emerging from a multi-year bear market that saw the Rabee Securities RSISX USD Index at the end of 2020 down by 68% from its 2014 all-time high
- The index started the year strong up 7.5% in local currency terms, but down 0.7% in USD terms. In 2022 was down 3.8%, and up 21.4% in 2021. But is still 61.8% below the 2014 high (as of 29<sup>th</sup> January). Attractive entry point with the currency depressing the fund's 11.9% return to 3.5% (estimates as of 29<sup>th</sup> January).
- Very attractive risk-reward profile versus other global markets.



Source: Iraq Stock Exchange, Rabee Securities, Bloomberg, AFC Research

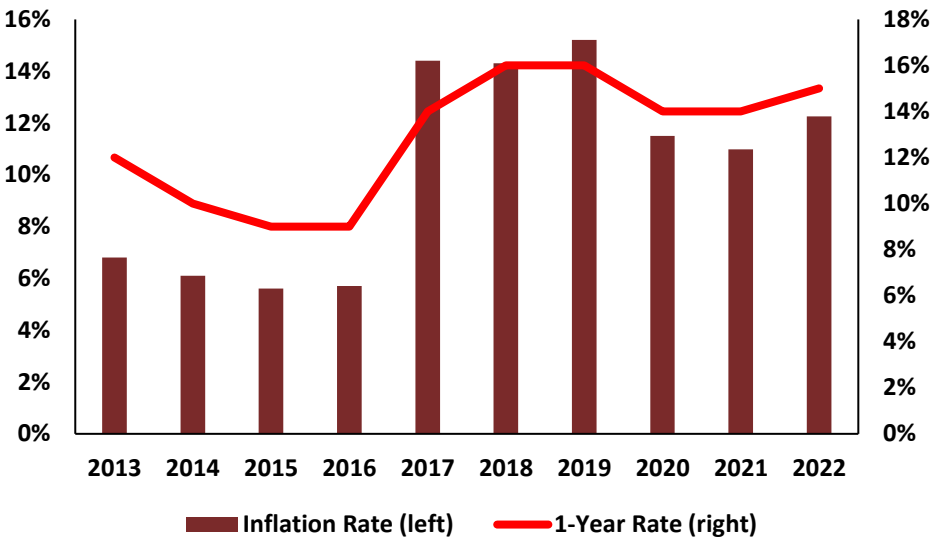
# AFC Uzbekistan Fund

Tourist arrivals have seen a rebound (in million)



Source: World Tourism Organisation

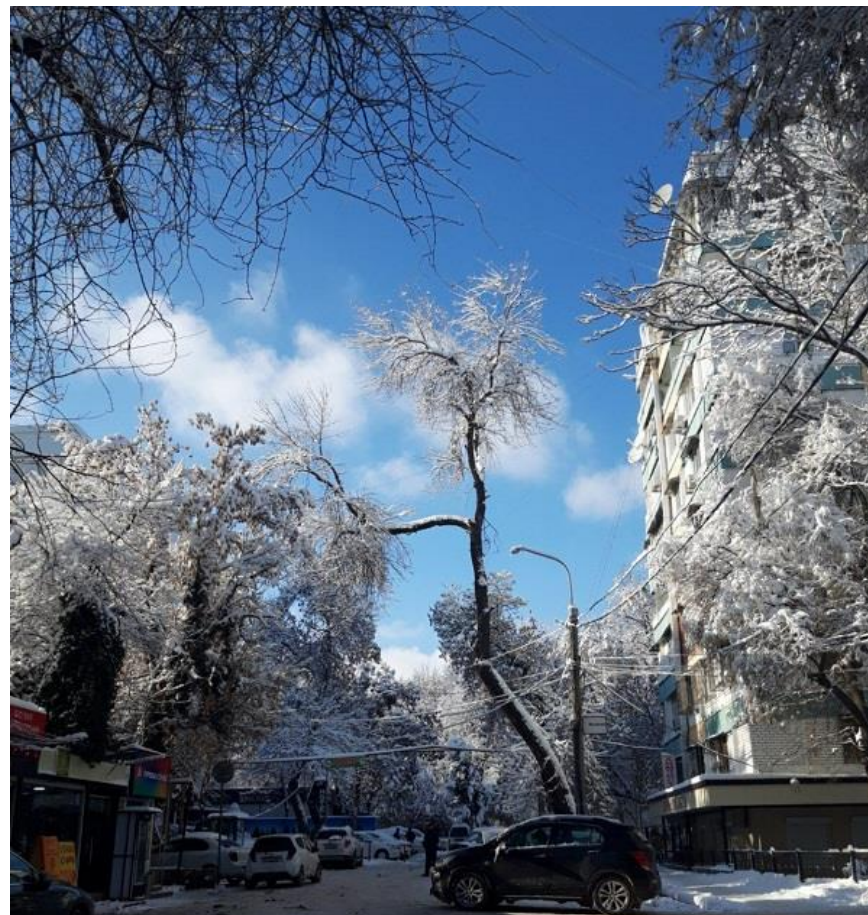
Uzbekistan inflation and policy rate



Source: AFC Research

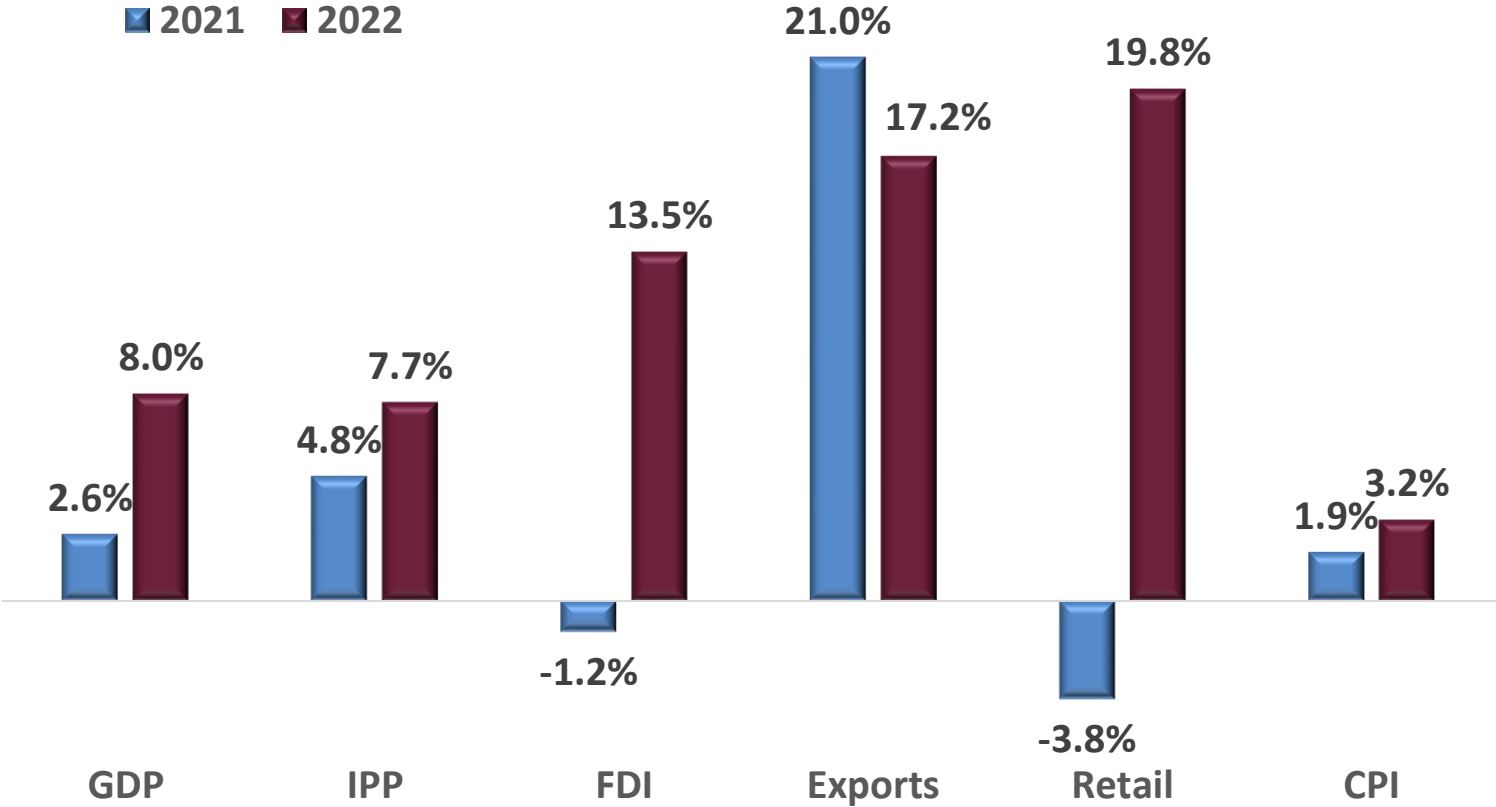
- 17<sup>th</sup> January 2023 Clearstream visited Tashkent Stock Exchange to facilitate access to international markets through a custody link.
- Elsis Savdo OTC platform to be merged with Tashkent Stock Exchange on 31<sup>st</sup> January 2023.

- 12<sup>th</sup> January Uzbekistan plunged into crisis with temperatures plunging to -27C.
- Planned bridge-gap natural gas supply from Turkmenistan didn't arrive due to frozen well-heads – power cuts, lack of heat and hot water.
- On 16<sup>th</sup> of January, the Mayor of Tashkent and the head of Thermal Power Plants JSC fired by President.



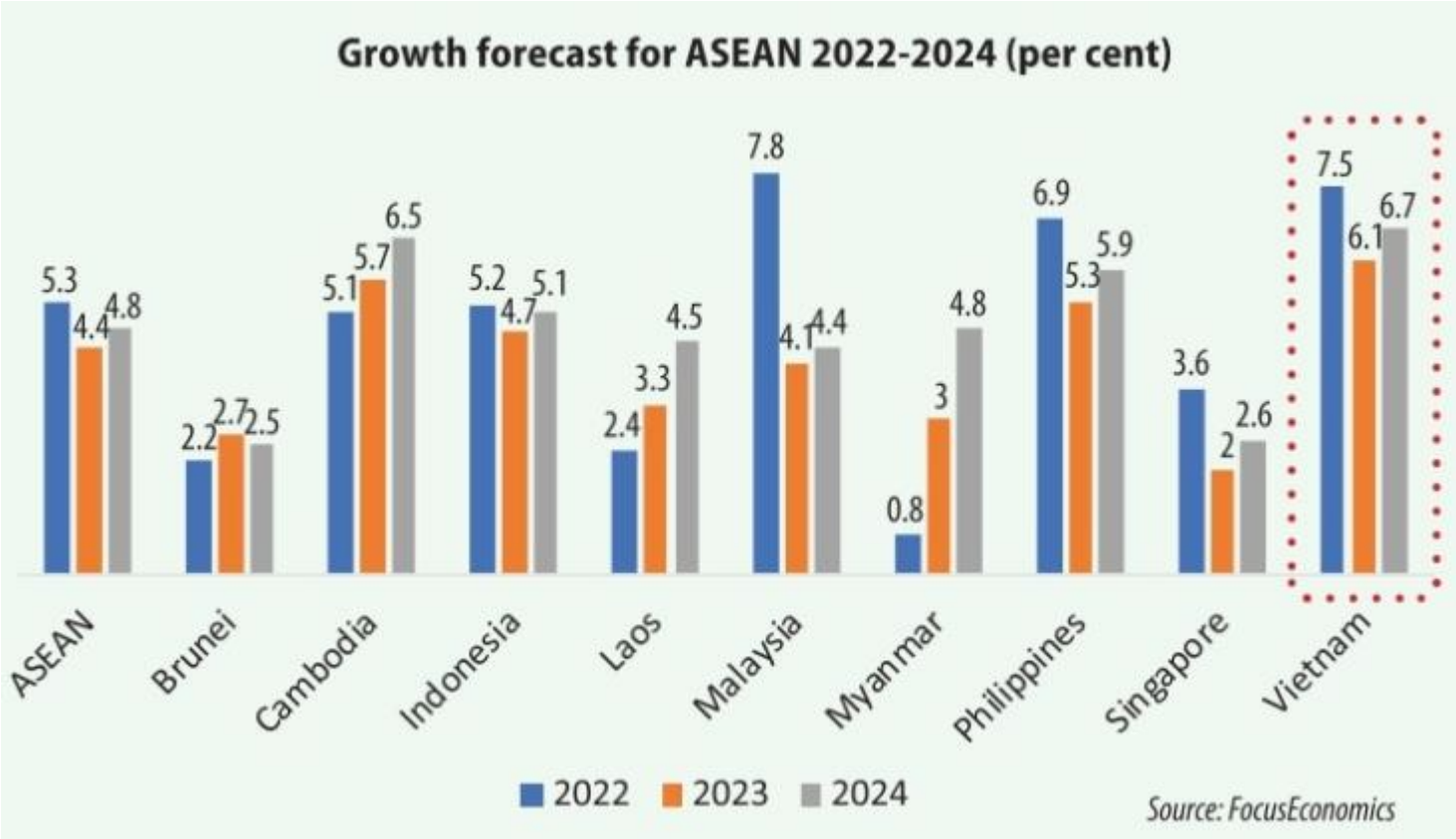
# AFC Vietnam Fund

Macro-Economic numbers



GSO, AFC Research

Encouraging signs for 2023 - ASEAN GDP growth forecasts - Vietnam stands out!

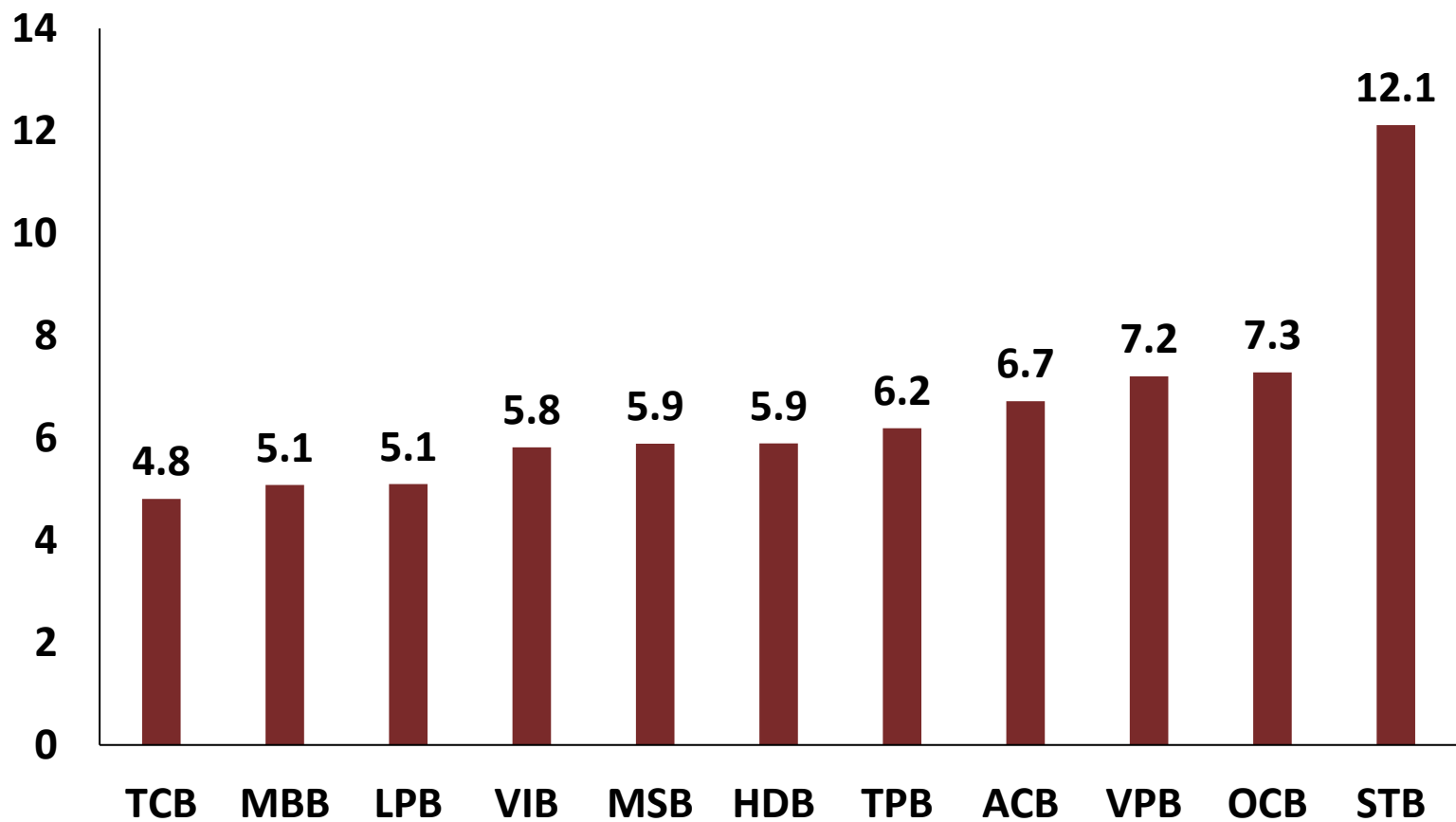


Buying Opportunity - Vietnam stocks are cheapest since 2013



Source: Bloomberg, as of 27<sup>th</sup> January 2023

Banking has an Attractive Valuation (P/E Ratio)



Source: Bloomberg, P/E is trailing 12 months

Tourism will recover strongly



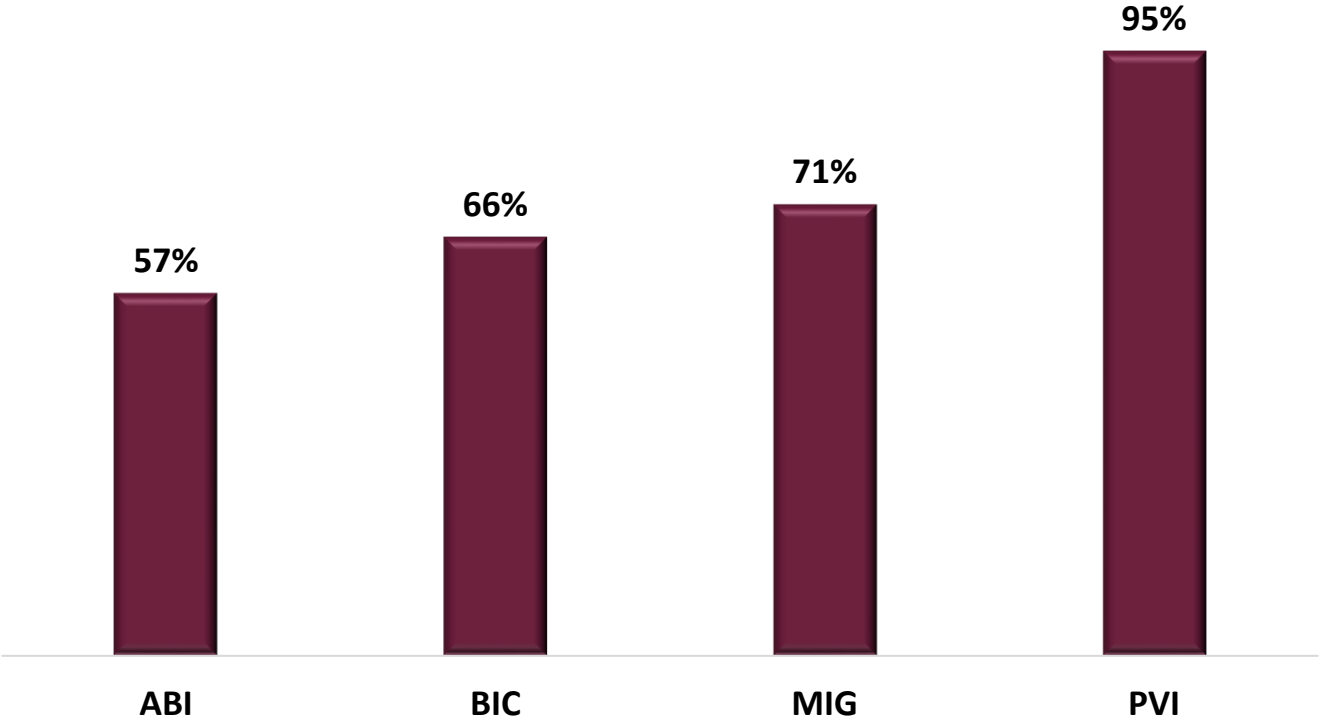
China reopens borders in final farewell to zero-COVID

By Joyce Zhou and Yew Lun Tian



Defensive Insurance

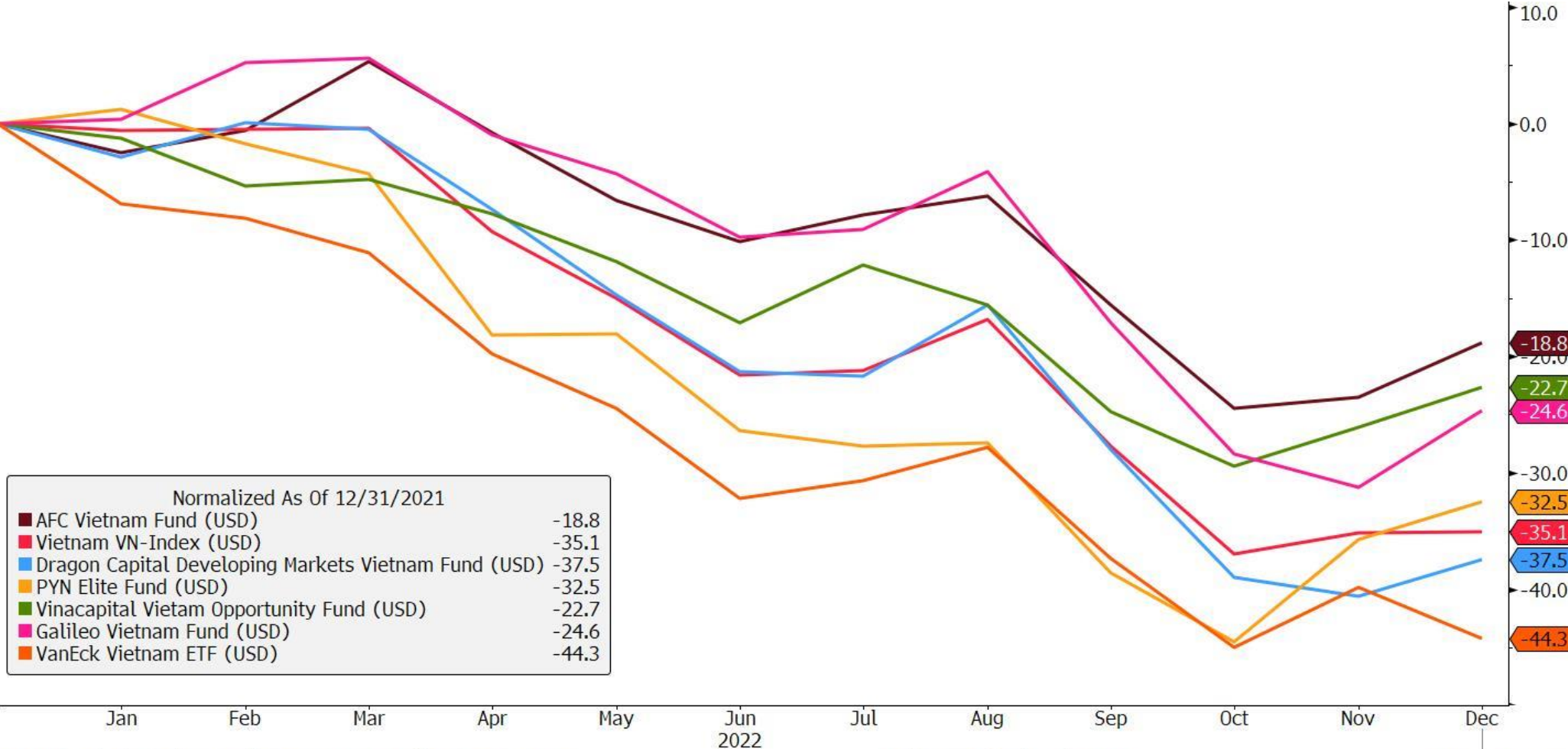
Market cap/Cash Ratios of insurance companies (%)



Source: AFC Research

AFC Vietnam Fund – Significant Outperformance in a tough 2022

Vietnam Funds & Index Comparison 2022



AFCVIET KY Equity (AFC - Vietnam Fund) AVF v Peers YTD Monthly 31DEC2021-30DEC2022

Source: Bloomberg

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## Why Asia Frontier Capital?

- The only investment firm which can offer pure listed equity exposure to Asian frontier markets.
- Focussed approach only on Asian frontier markets – not getting distracted by potential opportunities in other regional markets.
- Proven track record across all funds and all four funds have outperformed their benchmarks.
- No turnover in investment team has led to large and deep knowledge pool on Asian frontier companies and economies as well as on the ground connections.
- Conduct on the ground research and have AFC investment staff on the ground in Iraq, Uzbekistan, and Vietnam.
- Within the global frontier markets universe, Asian frontier markets offer the most attractive growth rates, demographics as well as liquidity.
- Structural shift of supply chains is expected to benefit Asian frontier markets more because of their close proximity to Asian supply links, free trade agreements and large young workforce.
- Benchmark agnostic approach which gives importance to on the ground research.

Learn more on Asian frontier markets!

## Recent Media Appearances

[4<sup>th</sup> January 2022 - Bloomberg TV: Vietnam Will Have Strong Recovery in 2022: Asia Frontier Capital - Interview with Ruchir Desai](#)

[31<sup>st</sup> March 2022 - Bloomberg TV: AFC's Desai On Top Asian Frontier Market Picks](#)

[12<sup>th</sup> April 2022 - Podcast with AFC Uzbekistan Fund's CIO Scott Osheroff, Doug Casey, and Matthew Smith](#)

[2<sup>nd</sup> July 2022 - Ruchir Desai discusses Sri Lanka's economic situation on Al Jazeera – Counting the Cost](#)

[12<sup>th</sup> January 2023 - Frontier Markets News Podcast - Sri Lanka's on the brink again ... but this time it's a good thing – Ruchir Desai discusses Sri Lanka with Dan Keeler](#)

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<https://www.asiafrontiercapital.com/>

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