



27 December 2018
Investor Letter 4/2018

Dear Customer,

PERFORMANCE IN 2018

We are recording a negative performance for 2018. Since its inception, PYN Elite has experienced five negative years, each historically followed by a year of positive performance.

2000	-38%
2004	-8%
2008	-53%
2011	-4%
2015	-7%

STOCK MARKETS

The dominating factor affecting global stock markets has been the events in the US and they continue to have that role. The FED's interest rate hikes have historically had a negative impact on stock prices, but a negative turnaround in companies' earnings growth and stalled economic growth have also generally been necessary to result in a major stock market crash. The valuation ratios of US listed equities, particularly for E-commerce companies, have climbed to very high levels in recent years, so a leveling out for them does not seem much of a market event, as we have seen throughout the fall. In 2018, a flash drop of one week was experienced as early as in the start of February, followed by the slow but persistent decline in stock prices in late fall. Considering the moderate daily losses, this is hardly a stock market crash.

Biggest daily losses of the S&P 500 index in late 2018:

10 October	-3.29%
24 October	-3.09%
4 December	-3.24%
24 December	-2.71%

In my view, even with the US losses in late fall, we will still be able to achieve even healthy growth rates on the stock markets during 2019. A substantial wave of panic sales in a single day should eventually trigger the next major stock market crash, but the time is surely not ripe yet for that.

VIETNAMESE MARKET

The shares prices for listed Vietnamese companies will be boosted by the continuing strong earnings growth, the US–China trade deal to be signed and the changes in regulation on the Vietnamese market. The new national regulations, which include the dismantling of foreign ownership limits (FOL) and allowing intraday trading, will modernize the operation of the Vietnamese market. Vietnamese legislators have already released the first drafts of the new Securities Law, which likely be finalized in the course of 2019.

PYN ELITE

The valuation rates for the key companies in PYN Elite’s portfolio, calculated on the basis of forecasted earnings, indicate a P/E ratio of less than 8 for 2019 and less than 7 for 2020. The earnings growth of our key companies will remain strong in 2018–2020, at around 25–30%. Some of the earnings growth will be diluted by increases in share capital, which has been taken into account in the forecasted P/E ratios.

2019	P/E	7.8
2020	P/E	6.9

In our view, this portfolio conveniently allows us to absorb any future up- and downturns in the stock market and to remain in Vietnam, where the stocks of listed small and medium caps in particular can still be had for remarkably low prices. The growth expectations for the Vietnamese economy overall lay on a very solid foundation, which is precisely why the focus of our portfolio is on companies operating on the Vietnamese domestic market. Below are current views on our key portfolio companies.

MOBILE WORLD GROUP

MWG (15.8% of the portfolio)

Mobile World Group again completes a year of excellent growth. The company’s revenue currently stands at USD 3 billion, and it aims for revenue of USD 10 billion by 2022. The main sources of future growth are the expansion of the grocery chain, additional growth of the consumer electronics chain with the next few years, and strong growth in e-commerce. The mobile device retail chain will grow most conservatively, mainly through sales of add-on services. 2018 was a good year for the company, but difficult for its stock. The upward trend in the share price in 2017 did not continue in 2018. The share price is currently much too low. The P/E ratio for 2018 is 12.5 and stands at 10 for 2019. We have a good return in the portfolio from this stock, but the position is on hold for more because of the low valuation and clear growth outlook.

BANKS

TPB – TP Bank (8.2% of the portfolio)

The Vietnamese economy has a positive outlook for the next few years, and the country's central bank will seek to keep the annual growth in lending at a moderate 15%. The growth rate is slower for major government-owned commercial banks and more rapid for medium-sized private banks. In addition to lending growth, the launches of services and financing products will be substantial sources of additional growth for banks. TPB has grown at an impressive rate and will record an excellent performance for 2018. TPB is especially strong in consumer car loans and in business financing for SMEs. It is particularly progressive in technological applications for retail payment services. There is solid expertise among the bank's owners: in terms of technology, they include FPT, Vietnam's largest telecom operator, and the Japanese Softbank. We have a 5% holding in this bank and our intention is to hold it over several years ahead. The 8.5 P/E ratio for 2018 is very modest, considering the bank's strong growth. In 2019, the P/E ratio will fall to around 6, unless there is a major hike in the share price. We expect solid price development in the Vietnamese banking stock in 2019.

HDB – HD Bank (6.3% of the portfolio)

Along with TPB, HDB is the other key bank stock in our portfolio, and the intention is to also hold its shares for several years. While HDB aims at strong growth, it also appreciates well-managed traditional banking.

HDB has an interesting joint venture called HD-Saison with the Japanese, specializing in consumer lending services. HDB acquired the state-owned oil company PG Bank last summer, and the merger is likely to receive final approval from Vietnam's central bank in January 2019. This will enable HDB to cross-market card products via the nation's largest gas station chain, as all the payment cards of the chain's customers will be replaced with HDB cards (approx. 20 million customers). It is not unreasonable to expect unconventional growth steps from HD Bank also going forward.

The share trades at a P/E ratio of 10 on 2018 earnings, and expected earnings growth of at least 20–30% seems probable over the next three to five years.

STB – Sacombank (2.1% of the portfolio)

With several years of major problems behind it, Sacombank is now experiencing a solid upturn in earnings. Its profit for 2018 will already be very good. We acquired a minor position in this bank in the fall of 2018. Our key expectations: normalized business operations and corresponding earnings growth, divestment of attractive real estate holdings received as collateral for bad debt, and ownership restructuring resulting from the government bail out.

INFRASTRUCTURE COMPANIES

CII – HCMC Infrastructure (5.8% of the portfolio)

This infrastructure company operating in the Saigon area has been a disappointment due to problems with monetizing the land holdings in the Thu Thiem area. A special permit audit imposed by the government on the entire area has impeded the building permit process in this area. The neighborhood is very centrally located in downtown Saigon, across the river, and dozens of companies have interests in this area. The companies' colorful deals with city authorities ended up under investigation in early 2018. The matter of the building permits is expected to resume soon. The value of the land has increased each year. CII's toll road projects will see a steady, increasing flow of revenue, but even that is likely to take a few years to grow substantially. We have kept CII on hold, at least for the time being. The share currently trades for roughly 10% lower than our acquisition price.

FCN – Fecon (2.6% of the portfolio)

Fecon, known for its demanding industrial and infrastructure projects in Hanoi, received a high number of orders for various projects over the fall. The company will record a healthy profit for 2018, but the stock has not had much of a response to the positive development. We expect solid earnings development and increasing valuation in the next few years. 2018 P/E ratio at 7.

CONSTRUCTION COMPANIES

VCG – Vinaconex (0% of the portfolio)

Vinaconex, our Hanoi-based construction conglomerate, was a major kept-at-hold share in our portfolio, with 7%.

The government holding in the company was auctioned in November, followed by a battle for control over the company by two Vietnamese players. The situation entails both risks and possibilities regarding how Vinaconex's balance sheet will be utilized, to the benefit of the company and/or main owners. The share price increased substantially over the fall and we ended up deciding on a block deal to sell our entire holding. In the EUR 30 million transaction, carried out on the Vietnamese stock exchange on Christmas Eve, we sold our shares to one of VCG's new owners for a substantial 25,000 dong per share. The realized cash return to our portfolio was roughly EUR 10 million.

HBC – Hoa Binh (5.4% of the portfolio)

Hoa Binh trades at a low valuation, but the construction company's operational style is also somewhat old-fashioned, and we have on several occasions disagreed with their management policies.

We have a satisfactory return from Hoa Binh in our portfolio even though the share was weak in 2018. We expect reasonable earnings for 2018, and the share currently trades at a very low valuation, with a P/E ratio of 5 for 2018. The share is on hold.

HOUSING AND REAL ESTATE COMPANIES

KDH – Khang Dien (4.6% of the portfolio)

The Khang Dien housing company will record excellent figures for 2018, and the outlook for the next few years is also promising. The company's balance sheet included very good land areas, and there is a continued positive vibe in demand for housing in Saigon. The bulk of the returns expected from the KDH share are in, and we have taken the profits by divesting some of the shares over the fall. The share is currently on hold.

NLG – Nam Long (3.7% of the portfolio)

Nam Long has a strong brand as a developer of affordable housing in Saigon, with a number of major high-value projects currently under way. The company will record a healthy profit for 2018, revenue for 2019 seems quite clear, and earnings growth is at a good level. 2018 P/E ratio at 10. We can expect solid years from Nam Long even in the future. The company's operational policies yield high value, it has a solid market position and a clear strategy.

CEO – CEO Group (2.9% of the portfolio)

The Novotel hotel built by CEO Group on the island of Phu Quoc is running well. The revenue from a Condotel to be linked with the hotel falls in December and early 2019, nicely boosting the company's performance. CEO Group has a major new tourism project under way on the island Van Don, in northern Vietnam. CEO has acquired an interesting land area, and the plans regarding that will be specified in more detail in 2019. The market prices for the assets on CEO Group's balance sheet are substantially higher than the company's net market value.

OTHERS

PAN – PAN Group (4.0% of the portfolio)

PAN Group operates in food industry. We have been a shareholder for several years now, and our holding includes a relatively large unrealised return. PAN secured a Japanese partner at a high price in the fall. The company now has cash for new acquisitions. We have harvested some of the returns from PAN; the P/E ratio for the 2018 earnings is a demanding 18, but it has several sources of potential earnings growth over the next few years.

VND – VNDirect (3.7% of the portfolio)

Stock trading remains very old-fashioned in Vietnam; proceeds from equity sales cannot be used for new purchases; the buyer instead needs to have cash in bank to buy stock. All trading has a three-day delay due to settling, and this applies to both private and institutional

investors. It is only a matter of time before so-called intra-day trading is allowed; in other words, new stock can be purchased against proceeds from previous equity sales. We believe that this reform will multiply the daily trading volumes in the Vietnamese stock exchange. This is one of the main reasons why we are holding onto the shares of some Vietnamese stock brokerage companies in our portfolio. Our biggest on-hold share is VND, Vietnam's leading online brokerage house. VND trades at a P/E ratio of 8 with its 2018 earnings.

ECONOMIC GROWTH

An interim forecast of Vietnam's GDP growth for 2018 was published today. The overall growth of Vietnam's national economy in 2018 was 7.08%, the highest in 11 years. We can confidently expect solid economic growth in Vietnam over the next few years, too, as the structural preconditions for economic growth are in order. The fundamental momentum of economic growth will boost the earnings growth of listed companies without any gimmicks.

Happy New Year!

PYN ELITE

Petri Deryng

Portfolio Manager

ATTACHMENT: PYN Elite's top holdings on 27 December 2018

Disclaimer

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Past performance is no guarantee of future performance. The value of the investment may in future increase or decrease. An investor cashing out their investment in the fund may receive less than what they originally invested or even lose the entire sum invested. The PYN Elite non-UCITS fund is not covered by the Finnish Investors' Compensation Fund or the Deposit Guarantee Fund.

The rules of the fund, fund prospectus and other publications by the fund are available at www.pyn.fi or from PYN Fund Management Oy/Ltd. Customers should always familiarize themselves with these before making an investment decision.

Top Holdings

Company	PEAK	2017	2018E	20EE	PYN Elite upside (E)	Company	PEAK	2017	2018E	20EE	PYN Elite upside (E)
MWG: Mobile World 16.0% (86,400)	2012					PAN: PAN Group 3.9% (43,100)	2007				
Revenue	7 375	66 340	87 881	150 000		Revenue	96	4 075	9 556	12 000	
Earnings	125	2 206	2 942	4 200		Earnings	50	372	307	550	
Market Cap	5 331**	41 495	37 186	85 000	129%	Market Cap	1 505	4 237	5 862	10 000	71%
Equity	456*	5 906	8 798	12 000		Equity	216	2 717	4 775	8 000	
TPB: TP Bank 8.3% (19,950)	2016					NLG: Nam Long 3.5% (25,500)	2015				
Revenue	2 121	3 172	4 449	8 000		Revenue	1 259	3 161	3 514	7 000	
Earnings	565	964	2 029	2 500		Earnings	206	492	655	900	
Market Cap	14 605**	14 605	16 969	40 000	136%	Market Cap	3 270	4 733	6 098	14 000	130%
Equity	5 683	6 677	10 411	12 000		Equity	2 218	2 920	4 316	7 000	
HDB: HD Bank 6.4% (29,500)	2016					VND: VNDirect 3.4% (16,350)	2010				
Revenue	4 744	6 347	10 024	17 000		Revenue	471	1 240	1 814	3 000	
Earnings	743	1 746	3 048	4 500		Earnings	105	438	460	800	
Market Cap	25 920**	25 920	28 939	75 000	159%	Market Cap	3 610	3 986	3 410	12 000	252%
Equity	9 316	14 076	15 847	25 000		Equity	1 242	2 507	3 201	4 000	
CII: HCMC Infrastructure 5.9% (25,950)	2009					CEO: CEO Group 2.8% (13,100)	2015				
Revenue	203	2 041	2 935	8 000		Revenue	639	1 833	2 484	5 000	
Earnings	316	1 514	90	1 800		Earnings	139	178	248	450	
Market Cap	3 682	8 643	6 350	20 000	215%	Market Cap	1 208	1 606	2 023	5 000	147%
Equity	1 207	4 934	4 952	9 000		Equity	871	1 848	1 917	2 500	
HBC: Hoa Binh 5.1% (17,400)	2007					FCN: Fecon 2.6% (15,050)	2014				
Revenue	455	16 037	17 968	25 000		Revenue	1 354	2 320	3 500	7 000	
Earnings	25	809	710	1 300		Earnings	130	167	220	480	
Market Cap	1 444	5 765	3 412	12 000	252%	Market Cap	1 244	1 321	1 420	4 000	182%
Equity	531	2 249	2 959	5 000		Equity	734	1 156	1 460	3 000	
KDH: Khang Dien 4.8% (32,300)	2010					STB: Sacom Bank 2.1% (12,000)	2017				
Revenue	772	3 055	3 582	7 000		Revenue	5 278	5 278	6 703	11 000	
Earnings	175	477	836	1 200		Earnings	1 000	1 000	1 756	3 600	
Market Cap	2 158	9 206	13 373	18 000	35%	Market Cap	26 333	23 177	21 644	40 000	85%
Equity	1 204	5 214	6 626	8 000		Equity	23 236	23 236	25 000	28 000	

Top holdings per 27 December 2018. Company figures in bn. VND

Peak: Shows the year of historical highest market cap in the past decade and the published revenue, profit and equity

20EE: Shows our target market cap, revenue, profits and equity within the next three years

* Mobile World listed on 14th July 2014 so the figures are pre-IPO. ** Mobile World, TP Bank and HD Bank market cap at subscription price.