



Investor Letter 2/2019
2 Jul. 2019

Dear Customer,

It's no use asking what is on everyone's minds as the summer vacation season approaches, but perhaps there's something essential and investment related we could ask ourselves as well: What could kick start a new substantial performance for PYN Elite's value? When can we expect the VN Index to bolt up to new levels? When could the valuations of small and midcap Vietnam-ese listed companies, lagging behind, catch up with the large cap listed companies? When will the downturn in the US that everyone is expecting possibly crash the stock markets?

Key take-aways in a nutshell:

- 1) Today's valuation levels could yank the core companies in the **PYN Elite** portfolio up substantially at any time. However, experience tells us that **returns come unexpectedly** and guesstimating their timing has always been difficult.
- 2) The Vietnamese stock market will experience one-of-a-kind upward push thanks to the additional modernization of the country's financial markets and the consequent upgrade of Vietnam's **MSCI** market status. MSCI's review list of candidates for upgrade in June included Kuwait, and Vietnam, as expected, was excluded from the list. However, it is **realistic to expect that Vietnam's turn will come within the next three years.**
- 3) The emerging and frontier markets have underperformed over the last few years, due to the strong US dollar and weak commodity markets. In light of this, there are many encouraging signs. In addition to stimulating interest rate policies in Europe, there will be new stimulating measures also from China and the US. It is reasonable to expect stock markets to react positively to these measures and for monetary policies to consequently continue to support stock markets in 2019 and 2020. **The Fed's interest rate cuts are likely to weaken the dollar and to spark upward movement in the emerging markets** because the emerging markets are generally lagging behind the performance of the US stock markets, among others.
- 4) A complete halt of US economic growth seems probable only after 2021, according to the latest forecast by the analysts at BCA, which we hold in high regard, and until then the loose availability money and low interest rates maintained by the central banks are likely to push stock markets substantially higher still.

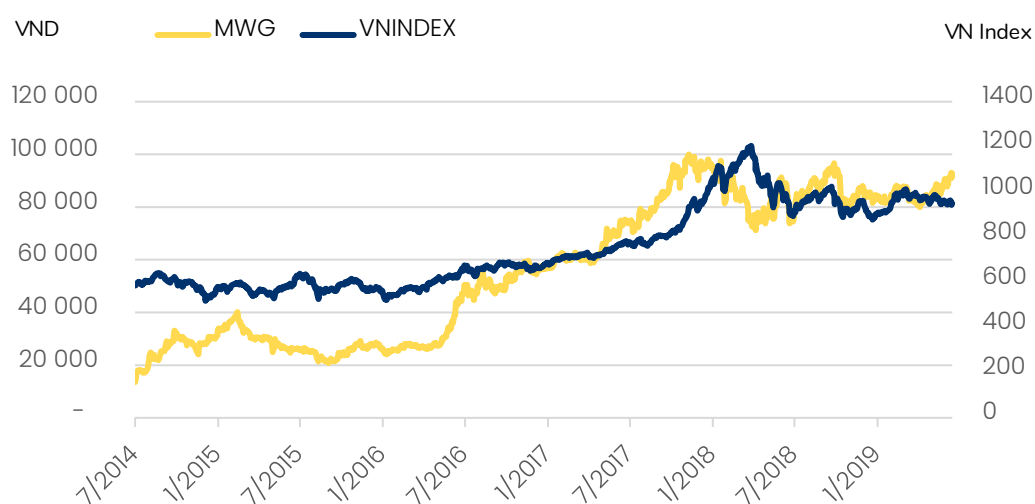
PYN ELITE

The largest allocation in our portfolio at 17.5%, the Vietnamese retailer star MWG, just released its 5M (January–May) earnings for 2019: The net profit grew +39%, and our earnings growth target for 2019 is +27%, which would result in a total profit of VND 3,658 billion (2,878 in 2018). The 5M profit indicates even stronger earnings growth, taking also into account seasonal

variations. MWG launched a new eyeglass retailer chain in June, aiming eventually at a chain of around one hundred stores.

The MWG share continues to trade at a very low valuation compared to the company's earnings potential in the next few years. The stock valuation has, over the last five years, clearly outperformed the VN Index, albeit with occasional volatility. The share has typically darted above the index for short periods and then developed sluggishly over extended periods. Since early June, the MWG share has shown some signs of awakening. It went up more than 5% in June, whereas the VN Index stayed put.

MWG share over 5 years vs. VN Index



Source: Bloomberg

The table below shows PYN Elite's five biggest allocations and their P/E ratios for three years. The big five make up 49% of the entire portfolio:

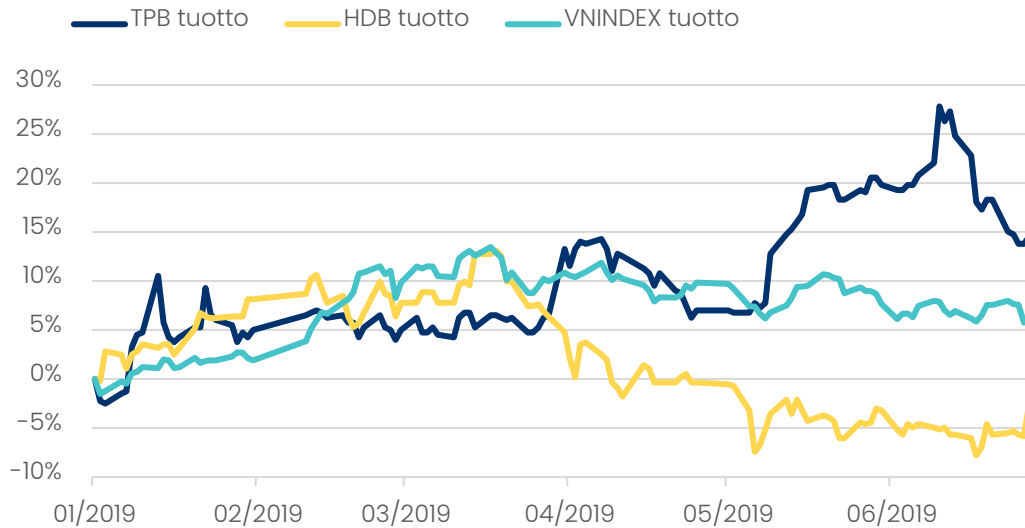
P/E ratios

Company	Sector	2019	2020	2021
MWG	Retail	11.1	9.3	7.6
TPB	Banking	8.4	7.4	6.1
HDB	Banking	7.7	6.5	5.1
VEA	Cars/motorbikes	10.0	8.7	8.0
CII	Infrastructure	7.6	6.4	4.8
Average		8.9	7.7	6.3

Similarly to MWG, also the Vietnamese banks are showing excellent numbers and are likely to keep consistent earnings growth over the next few years. During the last 1.5 years, we have built up a substantial banking weight in our portfolio. The Vietnamese banking index has stayed sluggish by the central bank's credit growth regulations and rules on consumer lending companies,

but we see even these measures as quite natural and likely to secure healthy long-term growth of the banks. In our view, both of our key banking stocks, TPB and HDB, are clearly undervalued because both companies have excellent earnings outlooks.

TP Bank, HD Bank and VN Index – return since January 1

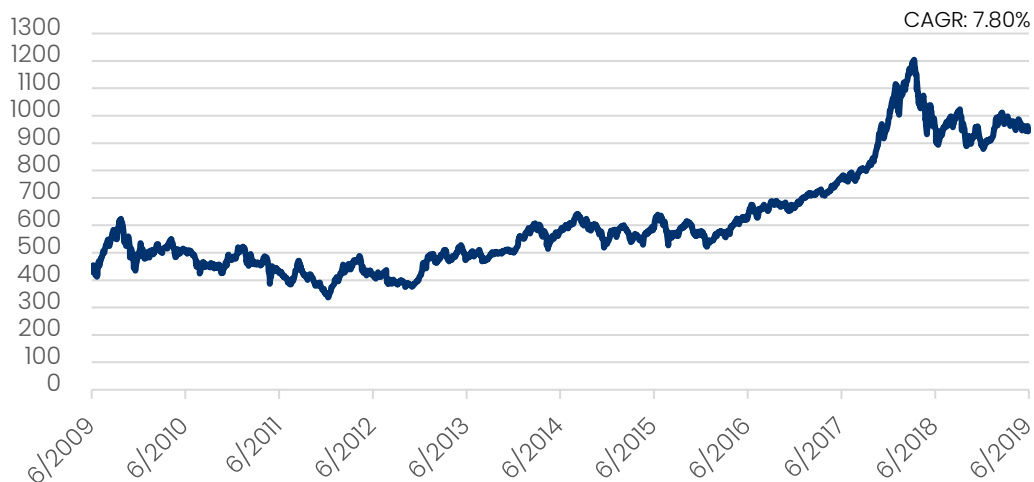


Source: Bloomberg

VIETNAMESE STOCK MARKET

Vietnam’s stock market index is buzzing at around 950 points. In April 2018, the stock market took an upward hike, surging to around 1,200 points, but after the subsequent correction, the index has been trading at between 900 and 1,000 points. The ten-year cumulative return of the index seems very moderate, at an annualized return of 7.8%. The figure is rather modest, taking into account Vietnam’s recession years between 2009 and 2012, the subsequent strengthening of balance sheets, and the continued excellent earnings outlook of Vietnamese listed companies over the next few years.

VN Index (10 years)



Source: Bloomberg

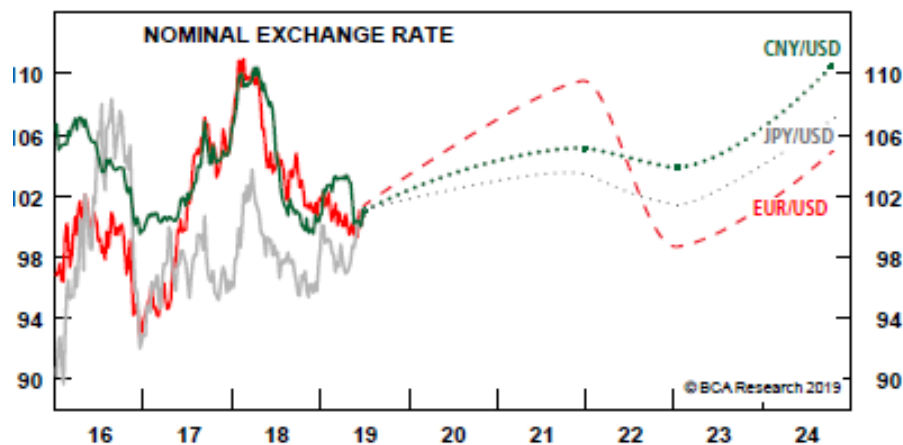
BCA

We believe that the global stock markets will enjoy an extended period of positive performance, as forecasted by BCA, and that share prices will remain high over the next few years, advancing in value, even surprisingly so, if the Fed decides to lower its interest rates. A major gap has opened up between the overall US stock market valuations and the stock valuations on emerging markets during recent years: USA P/E 18 and emerging markets P/E 12. Due to this, it can be expected that precisely the emerging market stocks will spurt within the next two years.

BCA market forecasts



* DEFLATED BY HEADLINE CONSUMER PRICE INDEX.
 ** SHOWN REBASED JUNE 2019 = 100 AND IN U.S. DOLLAR TERMS;
 SOURCE: MSCI INC. (SEE COPYRIGHT DECLARATION).
 NOTE: DASHED LINES REPRESENT FORECASTS.



NOTE: SERIES REBASED TO JUNE 2019 = 100;
 DASHED LINES REPRESENT FORECASTS.

Expectations for Vietnam's economic growth and listed companies' earnings growth have remained positive, even though the world is full of uncertainties related to the continuity of

economic growth. The global, historically low interest rate outlook is further boosting share price development, regardless of the global economic uncertainties.

We are happy with the positioning of PYN Elite's portfolio and this is a good setup in which to sit back and wait for the realization of additional returns from Vietnam, even if minor setbacks and extended waits can sometimes prove to be unnerving.

Enjoy your vacations!

PYN ELITE

Petri Deryng
Portfolio Manager

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