

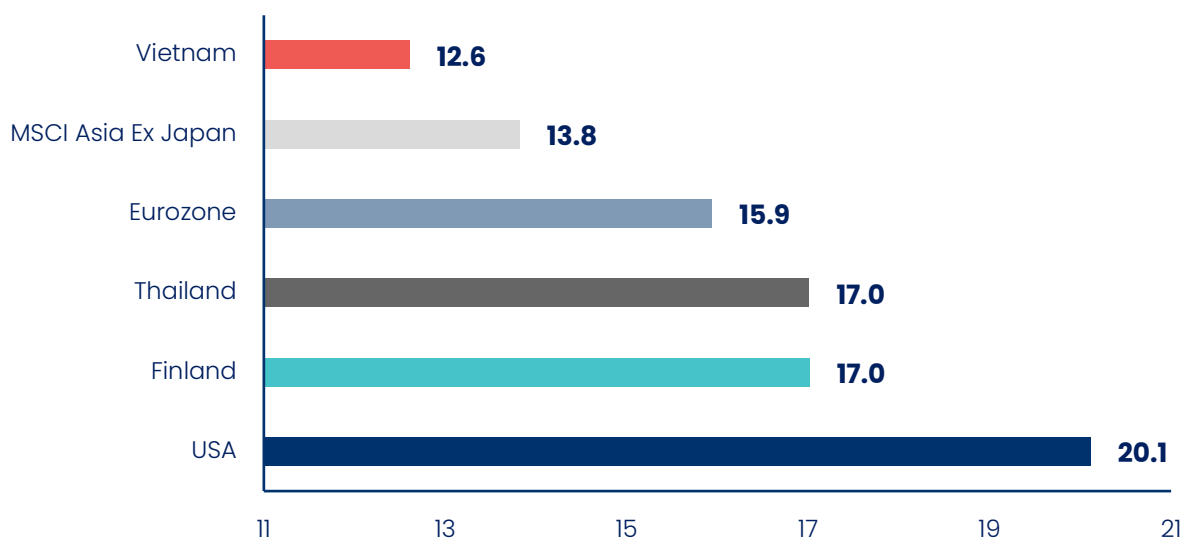
EARNINGS GROWTH KEY DRIVER FOR COMING YEARS IN VIETNAM

The keynotes of our investor letter:

- Strong earnings growth makes Vietnamese stocks very attractively priced.
- Despite the fourth wave of COVID-19 crippling economic activity in the third quarter, economic growth for the full year 2021 will be nearly 5%.
- While the Vietnamese stock market has seen swift sell-offs due to COVID-19 restrictions, the overall market sentiment has remained positive.

The consensus earnings growth forecasts for 2022 put the Vietnamese stock market's P/E ratio at 12.6. This represents an attractive valuation. Earnings growth may accelerate or slow down relative to the forecasts, but the overall situation creates potential upside for listed stocks in Vietnam. In our view, the robust position of the Vietnamese economy and the moderate level of debt among listed companies create the conditions for reasonable return expectations with limited risk.

Vietnam's attractive forward P/E



Source: Bloomberg

The VN Index and the PYN Elite NAV have had positive performance during the COVID-19 pandemic in 2020 and 2021. The index is currently about 40% above the pre-pandemic level. Performance this year has been momentarily diminished due the news of infections and the societal restrictions. Quick sell-offs were seen in January, July and August. Going forward, the performance of the VN Index will be driven by the strong earnings growth of listed companies but, first, infection ratios in Vietnam need to be brought under control through vaccinations.

VN Index and PYN Elite performance during epidemic period



Source: Bloomberg

Vietnam did an excellent job of controlling the spread of COVID-19 from the start of the pandemic until April 2021, when new virus variants began to wreak havoc during the fourth wave of the pandemic and evaded the protective measures put in place by the authorities. Industrialized countries had a head start in vaccine purchasing due to having funded vaccine development through pre-order payments. Vietnam only received its first batches of vaccines in May 2021 and vaccinations did not get fully under way until June 2021.

The Vietnamese administration was able to ramp up the rate of vaccine deliveries during the summer, with as many as 500,000–1,000,000 jabs being shot per day. Vietnam has primarily allocated vaccinations to the major cities that are significant to the country's economy and their adjacent industrial zones. During the three summer months, a high rate of first dose coverage was achieved in these areas. The rate of second dose coverage will increase rapidly during the fall. We believe that the increase in infections during the fourth wave has leveled off and turned to a decline in September and that the epidemiological situation will improve substantially during the remainder of the fall season.

Vaccinations have been targeted to key cities and in industrial zones

	City/ Province	Vaccinated (at least 1 dose)*	Fully vaccinated*
1	Long An	111.3%	14.9%
2	Hanoi	99.4%	12.3%
3	Ho Chi Minh	97.2%	28.8%
4	Binh Duong	93.0%	3.1%
5	Dong Nai	78.3%	4.6%
6	Khanh Hoa	74.7%	9.1%
7	Quang Ninh	72.0%	18.3%
8	Da Nang	58.9%	8.7%
9	Tay Ninh	39.7%	4.5%
10	Bac Ninh	31.8%	24.4%

* No. of people vaccinated/ Population over 18-year-old

Source: National Covid-19 prevention and control technology center of Vietnam

There is imbalance in performance between different sectors in the Vietnamese stock market. We analyze the reasons behind the underperformance and overperformance of stocks in different sectors. Instead of looking for hot sectors, we look for stocks in sectors that could offer the highest return potential over the next three years. Although the performance of PYN Elite NAV has beaten the index during the period January 1, 2020–September 17, 2021, it is important to note that we have taken profits from many hottest positions and reallocated those funds specifically in sectors that have been hard hit by COVID-19. The best returns from these sectors are expected to come in the years after the pandemic.

Vietnam market performance by sectors

Sector	3 year median
Industrial Parks	234%
Information Technology	212%
Chemicals	206%
Brokers	199%
Logistics	124%
Telecommunications	115%
Real Estate	112%
Basic Resources	109%
Others	97%
Utilities	85%
Construction & Materials	84%
Banks	82%
Health Care	57%
Industrial Goods & Services	32%
Retail	29%
Food & Beverage	26%
Insurance	12%
Oil & Gas	6%
Aviation	-3%

Source: Bloomberg, PYN Fund Management

The banks in the PYN Elite portfolio (TPB, HDB, MBB and CTG) have generated good returns, but the valuation multiples of banks remain modest compared to their expected growth in the next few years. VRE (shopping malls), ACV (airports), VEA (cars and mopeds), CEO (leisure properties) and SCS (air cargo) are among stocks whose earnings growth may deliver positive surprises in the years to come, once the negative earnings impacts of the COVID-19 pandemic are entirely in the past. However, potential new waves of infections and new restrictions may postpone earnings performance. VHM, the largest housing developer in Vietnam, is overweighted in the PYN Elite portfolio due to its current undervaluation. The company is in excellent shape to achieve strong earnings, but the share price has been held back by several incidental factors.

PYN Elite portfolio earnings expectations

Company	Weight	Net profit				Net profit growth rate				Target	Upside
		2020	2021	2022	2023	2021	2022	2023	3Y total		
VHM	19%	27351	34556	39874	46407	26%	15%	16%	70%	P/E 14	89%
TPB	11%	3510	4844	5813	6822	38%	20%	17%	94%	P/B 2.0	53%
VRE	10%	2382	1890	2894	3609	-21%	53%	25%	52%	P/E 16*	101%
HDB	9%	4248	5869	7093	8000	38%	21%	13%	88%	P/B 2.5	58%
MBB	9%	7436	10800	12764	15136	45%	18%	19%	104%	P/B 2.0	78%
VEA	9%	5503	5500	6950	8340	0%	26%	20%	52%	P/E 12	79%
CTG	8%	10670	14614	15931	17482	37%	9%	10%	64%	P/B 2.2	110%
ACV	7%	1252	1732	4043	6521	38%	133%	61%	421%	P/RB 1.5	104%
NLG	6%	793	1040	1169	1427	31%	12%	22%	80%	P/E 12	6%
SCS	2%	405	475	590	675	17%	24%	14%	67%	P/E 18	57%
CEO	2%	-67	100	550	600	N/A	450%	9%	N/A	P/E 12	136%
Average						25%	71%	21%	109%		

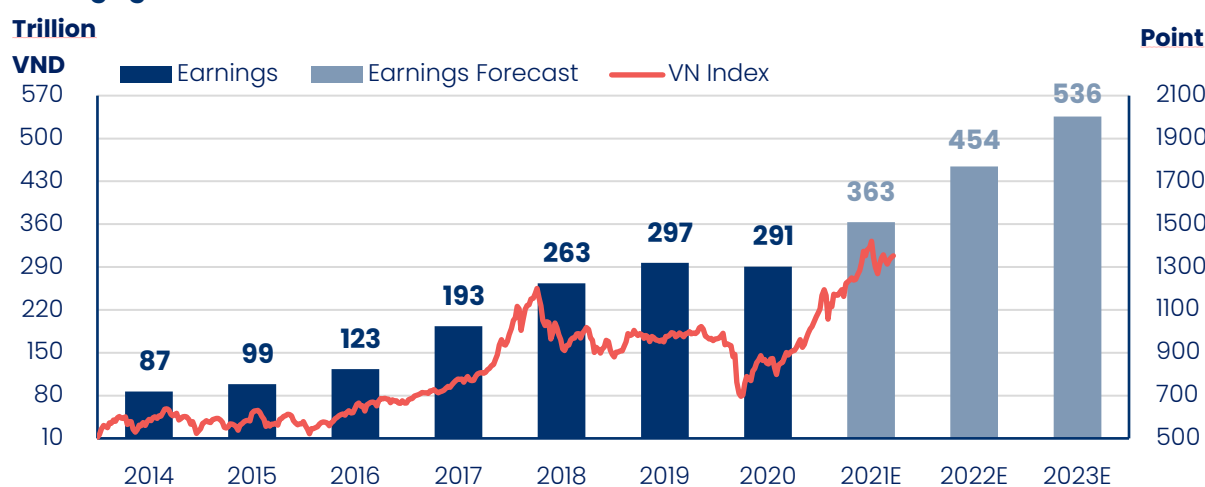
*IFRS P/E

Source: Bloomberg

The VN Index has risen by 105% from the lows seen after the initial global Covid outbreak in 2020. This upswing has been achieved despite the earnings growth being weak in 2020. Earnings growth for 2021 is likely to be in the range of 20–30% despite the third quarter being “a lost quarter” due to the massive restrictions with the fourth wave of COVID-19.

The VN Index is up 40% since the beginning of 2020, which could be seen as subdued considering that the index stalled in 2018 and 2019, resulting the index being only 12% above the highs of 2018. Our forecasts for the earnings growth of Vietnamese listed companies are +25% in 2021, +25% in 2022 and +18% in 2023. We expect VN Index will move in line with the earnings growth of listed companies in years to come.

Earnings growth will lead the VN Index



Source: Bloomberg, PYN Fund Management

One can't write about Vietnam at this time without mentioning China. It seems that China has robbed investors around the world of their peace of mind due to the dismal situation faced by the Chinese housing giant Evergrande. The company funded its expansion by taking on tremendous amounts of debt, and the Chinese administration began to bring the housing sector's debt situation under control in late 2020. In these difficult circumstances, Evergrande has sought to substantially reduce its liabilities, but it nevertheless seems to now find itself in a complete liquidity crisis. I once visited certain Evergrande residential properties myself.

The company has built a large number of medium-priced homes and residential areas around China. While its products have seen strong demand, an imbalance has emerged between the company's use of borrowed capital and its profitability.

Evergrande's potential bankruptcy would be a heavy blow for the Chinese who have made cash deposits for homes as well as banks and the holders of Evergrande's bonds. The impacts will mainly be felt within China, but investors around the world may continue to sell off stocks for some time due to the generally weakened investment climate. The Chinese administration has the means to stimulate domestic demand if the Evergrande crisis were to have a significant negative impact on it. Vinhomes in the PYN Elite portfolio has large cash reserves, high profitability with an ROE of 30% and net debt to equity ratio of 10%, which means that there is no need to be concerned about the impact of potential changes in its financing situation, although the share price may fluctuate in response to the news about Evergrande.

Sincerely,

PYN Elite

Petri Deryng

Portfolio manager

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The material presented in this investor letter is based on PYN Fund Management's view of markets and investment opportunities. PYN Elite Fund (non-UCITS) invests its assets in a highly allocated manner in frontier markets and in a small number of companies. This investment approach involves a larger risk of volatility compared to ordinary broadly diversified equity investments. The value of an investment may decline substantially in unfavorable market conditions or due to an individual unsuccessful investment. It is entirely possible that the estimates of economic development or a company's business performance presented in this presentation will not be realized as presented and they involve material uncertainties.

PYN Elite

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