

PYN ELITE 25 YEARS ANNIVERSARY

A few weeks ago, the Helsingin Sanomat newspaper described [PYN Elite](#) as the best performed fund of all time in Finland. That is quite an honor! As a fund entrepreneur, I would like to express my gratitude to the Ministry of Finance and the Financial Supervisory Authority for approving our application for authorization and enabling us to start our operations.

At the time we launched PYN Elite 25 years ago, the number of fund management companies and funds in Finland was much lower than it is now. Of course, many fund management companies established several funds, which makes our achievement even more impressive – we have delivered the highest returns with just one fund. It is a little bit like playing the lottery: if you buy several tickets, you have a higher chance of winning than with just one ticket.

The work of a portfolio manager has not changed significantly over the past 25 years, and I believe it has been a good decision to focus on managing just a single fund. We still engage in the same kind of macro analysis and stock picking practises as we did 25 years ago. Over the years, we have had both successful and unsuccessful choices of companies, and that will undoubtedly be the case in the future as well.

We have been in the Vietnamese stock market for about a decade now, and the value of the fund NAV has doubled in that time. This is a very moderate achievement, and our average annual returns for this period is lagging our average historical performance. At the same time, our hypothesis of the potential held by the Vietnamese economy has become even more robust. We believe that, going forward, the success of the Vietnamese economy will be reflected in the country's stock market much more strongly than in the past few years.

The ranking of Finnish funds - Top 12

Rank	Fund	Launch date	History (Y)	Cumulative profit (%)	CAGR profit
1.	PYN Elite	1.2.1999	25	4,195%	16.2%
2.	S-Pankki Fenno Osake	17.8.1998	25	2,103%	12.9%
3.	eQ Pohjoismaat Pienyhtiö 2	30.9.1999	24	1,710%	12.6%
4.	Evli Suomi Pienyhtiöt	4.12.1992	31	3,414%	12.1%
5.	OP-Suomi	7.6.1994	29	2,280%	11.3%
6.	Evli Suomi Select	13.10.1989	34	3,605%	11.1%
7.	Aktia Capital	15.5.1992	31	2,570%	10.9%
8.	Nordea Nordic Small Cap	12.6.1998	25	1,304%	10.8%
9.	Nordea Pro Suomi	15.3.1993	30	2,189%	10.7%
10.	Fondita Finland Micro Cap	7.4.1997	26	1,189%	10.0%
11.	Seligson & Co Phoebus	30.1.2002	22	706%	9.9%
12.	Fondita Nordic Small Cap	10.9.1997	26	1,062%	9.7%

Comparison of the average yearly profit (CAGR) from the whole fund's history. Comparison includes only funds with at least 20 years of history per 31.1.2024.

Source: Investment Research Finland

The VN-Index peaked at over 1,500 a couple of years ago and is still trading nearly 20% below that level. The slowdown of economic growth in Vietnam and higher interest rates hurt the earnings growth of listed companies. Since November, the Vietnamese stock index has been gradually trending upwards. This year, economic growth in Vietnam will accelerate again, as the country's money markets returned to normal last fall. Our earnings growth forecast for Vietnamese listed companies is +25% year-on-year.

The performance of the VN-Index

VN-Index



Source: Bloomberg

The fundamentals for economic growth in Vietnam remained strong despite the temporary sluggishness of growth. The Vietnamese administration took action against those guilty of misconduct in the financial markets, but this also caused uncertainty in the financial markets and a pinch to the consumer confidence. The market is now recovering from the sudden interest rate shock caused by the disruption. Supported by the substantially decreased interest rates and ample liquidity, economic growth is accelerating again.

Vietnam's benchmark countries in Southeast Asia are Thailand, the Philippines and Indonesia. The status in the Vietnamese economy is the strongest among its peers by several indicators, and the conditions for long-term economic growth are the most robust. A few of the relevant comparative indicators are shown in the table below.

Vietnam stands out by selected key macroeconomic indicators

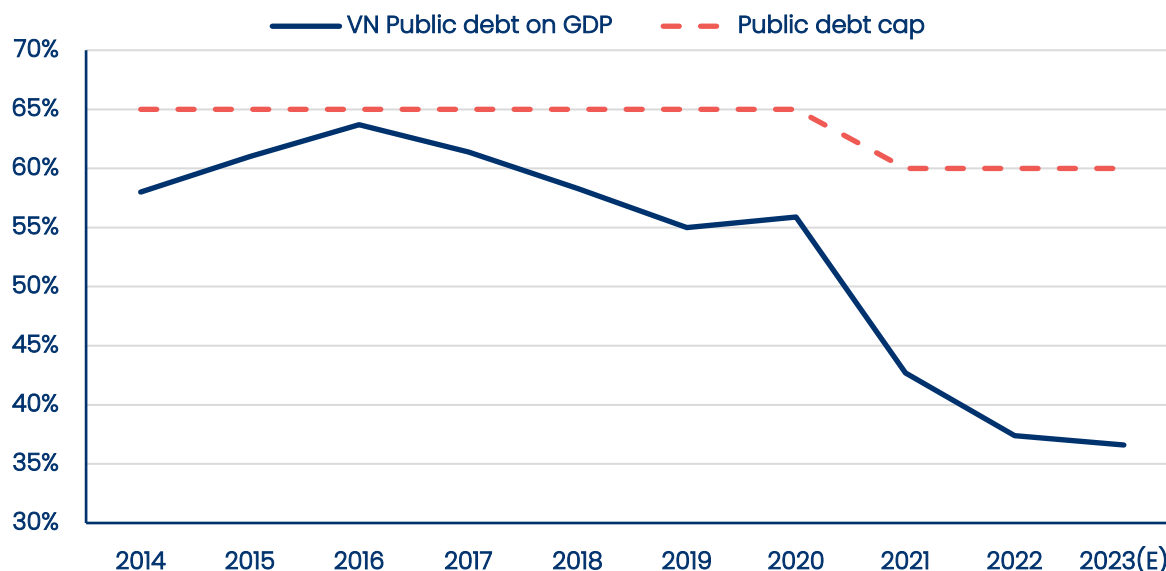
	Vietnam	Thailand	Indonesia	Philippines
Government debt / GDP (2023E)	34.0%	61.4%	39.0%	57.6%
FDI / GDP (net inflows) (2022)	4.4%	2.1%	1.6%	2.3%
GDP growth (2024E)	6.5%	2.8%	5.0%	5.8%
EPS growth (2024E)	37.1%	16.5%	32.1%	20.0%
Index forward P/E (2024E)	11.7	14.7	14.2	10.7

Source: IMF, Worldbank, Bloomberg, PYN Fund Management

The level of foreign direct investment (FDI) provides a clear indication of the growth potential of manufacturing and exports in the coming years. Economic growth is structurally sound and low-risk when foreign money flows into industrial investments instead of imports of consumer goods. Vietnam's FDI is over 4% of GDP, which is an impressive figure when assessing the risks to the macroeconomic conditions in the next few years.

The government in Vietnam has managed its fiscal policies very responsibly over the past five years. Vietnam is investing in its energy infrastructure and building roads, bridges and a new airport in Saigon. A subway system is under construction in both Hanoi and Saigon, with the first line already being operational in Hanoi. Despite all of this, Vietnam has managed to keep the public debt to GDP ratio very low and significantly below the maximum limit determined by the central government. I have often said that, considering the long-term positive outlook for economic growth in Vietnam, the government could launch several new debt-financed public megaprojects without causing significant threat to the country's risk profile. The public debt to GDP ratio has fallen to 36%.

Vietnam's economic growth is not based on borrowing



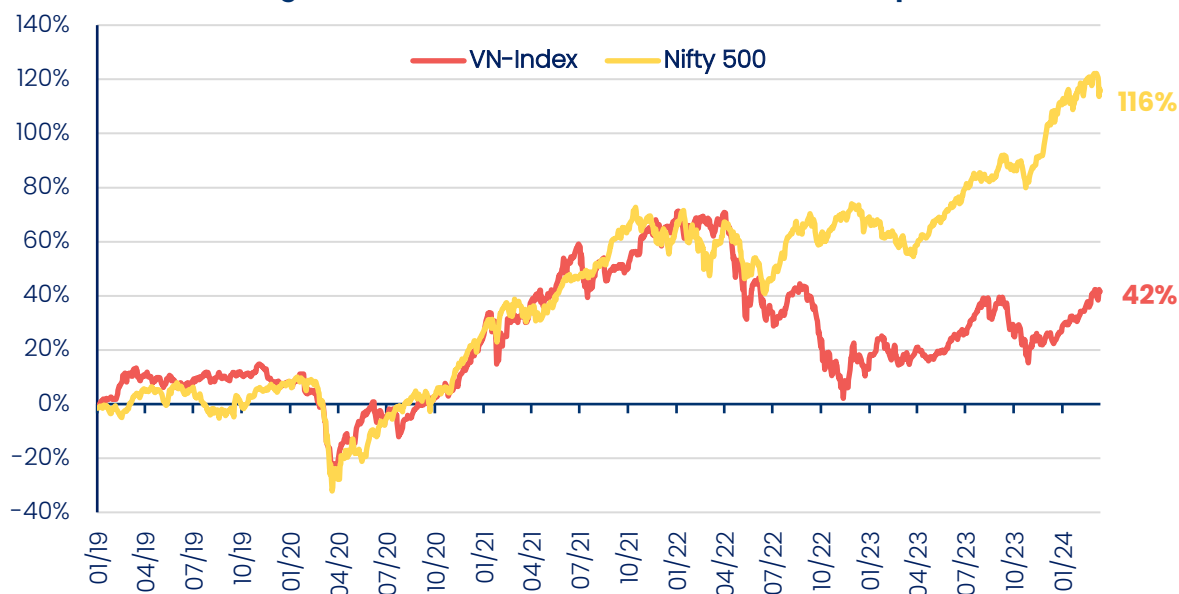
Source: Vietnam MoF

The star performer among the Asian stock markets in 2023 was India, which doubled its value. There are similarities between the Vietnamese and Indian economies, as both are expected to achieve strong growth over the next decade. The two countries have spent on education and they stand out from many emerging Asian economies due to their IT expertise. They sell their digital expertise globally, which earns them increasing revenue from service exports.

During the past two years, Vietnam bungled the sentiment of the stock market due to events in the domestic market. In light of the 2024 forward earnings, the gap in the P/E ratio between Vietnam and India has grown too wide, with Vietnam having a P/E of 11 while India's P/E is 22. We believe that the valuation gap between the two markets will narrow. As regards the macroeconomy, it should also be noted that India relies on external borrowing, whereas Vietnam generates surpluses, which means that India's current account is in deficit, while Vietnam has a current account surplus. When the

economy is booming, India is likely to attract inflows of money, thus ensuring adequate financing for growth, but risk factors should also be taken into consideration when evaluating expected returns. Overall economic growth in India can exceed that in Vietnam because, back in 2012, the State Bank of Vietnam introduced a quota system for lending growth that applies to the entire banking system and effectively limits the annual rate of economic growth. The arrangement supports structurally sustainable growth and prevents boom and bust scenarios.

India was a star among Asian markets in 2023 – Vietnam to catch up



Source: Bloomberg

Bloomberg's consensus forecast projects earnings growth of as much as 37% for Vietnamese listed companies in 2024. However, Bloomberg's figures are not entirely accurate because their data is updated slowly due to the small size of the Vietnamese market. The actual earnings growth figure is unlikely to be that high, but what matters is that strong earnings growth can be expected in Vietnam, and the stock market offers extremely attractive valuations with 2024 forward earnings.

Vietnam and India – forecasts for EPS and P/E

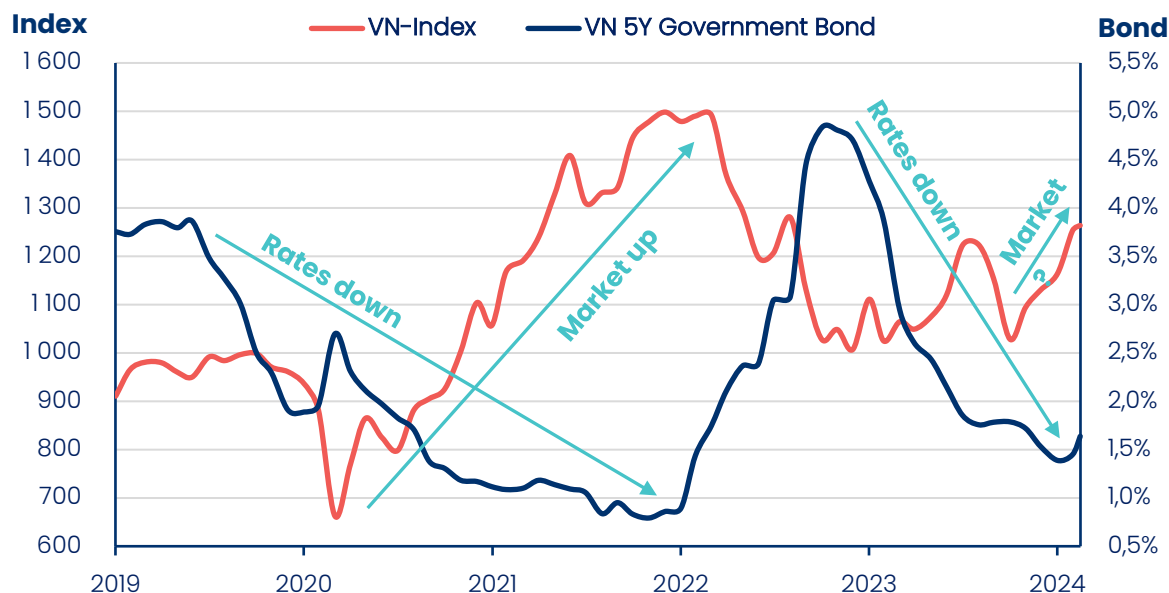
	VN-Index	Nifty 500
EPS growth 2024 (E)	37.1%	29.1%
Index forward P/E 2024	11.7	22.0

Source: Bloomberg

Interest rates in Vietnam were cut already last fall, but the impacts on the economy and the stock market will become apparent this year. The global interest rate environment can be expected to be supportive in the second half of this year and 2025, which will help to keep interest rates in Vietnam at modest levels and even dip further without creating devaluation pressure on the exchange rate. The narrowing of the interest rate gap, relative to the U.S. dollar, may lead to an appreciation of the Vietnamese dong in the latter part of the year, which would make it easier for the State Bank of

Vietnam to manage local interest rates and the exchange rate, and this would have a positive impact on stock market sentiment.

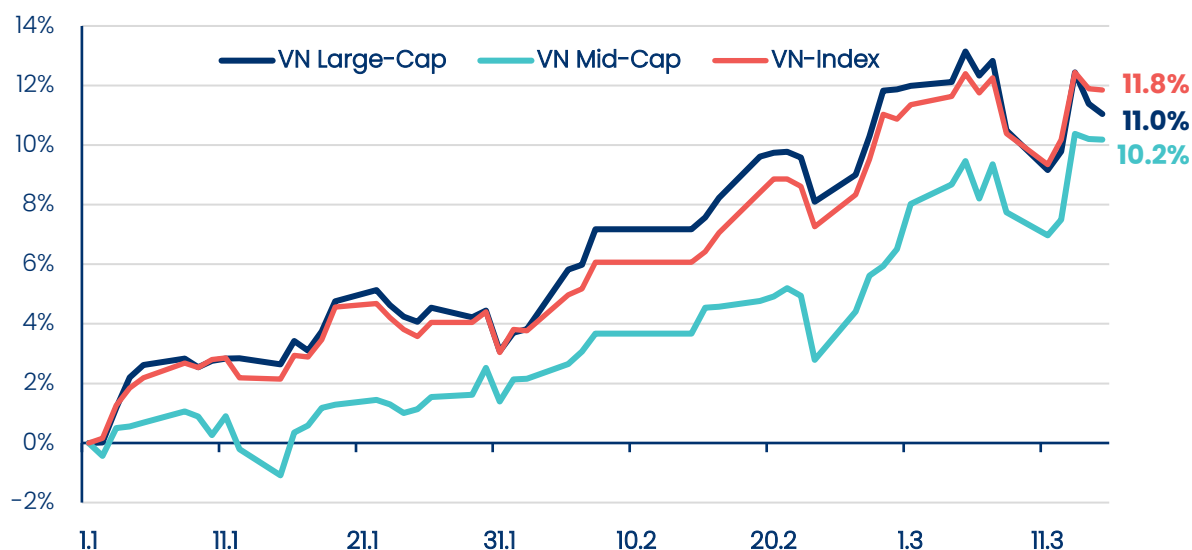
The money market trend indicates a favorable outlook for stocks



Source: Bloomberg

In 2023, small and mid-cap stocks outperformed large-cap stocks in Vietnam, but the balance shifted in favor of large corporations at the turn of the year. Banks play a significant role in the VN-Index with a weight of 39% (in the PYN Elite portfolio, banks have a weight of 52%). In January, we got promising indications of individual banking stocks strong moves. Banks may play a major role in driving the VN-Index to new higher levels this year.

The performance of large-cap stocks accelerating in 2024



Source: Bloomberg

The table below shows the 12 largest holdings in the PYN Elite portfolio. Promising earnings growth is expected and the valuations of the companies are very attractive. I was recently a panelist at a conference for institutional investors organized by the investment bank Vietcap and having over 500 participants. Vietcap's CEO moderated the panel discussion and asked me what would need to be done for the Vietnamese index to rise in 2024. My answer was simple: "Nothing". That is because all of the elements necessary for a strong performance are already in place.

Those key elements for a stock market rally in Vietnam are earnings growth, a good economic outlook, low indebtedness, the low valuations of stocks and the favorable trend in the financial markets.

Earnings outlook for the 12 top holdings in the PYN Elite portfolio

Company	Weight	Est net profit (Billion VND)			Growth rate			Forward P/E		
		2024	2025	2026	2024	2025	2026	2024	2025	2026
STB	13.6%	10,622	12,990	15,518	53%	22%	19%	5.4	4.7	3.9
HDB	9.8%	12,400	14,476	18,052	23%	17%	25%	6.0	5.2	4.1
CTG	9.5%	22,729	27,461	29,743	42%	21%	8%	8.2	6.8	6.3
MBB	9.1%	24,197	30,513	37,774	22%	26%	24%	5.2	4.2	3.4
ACV	8.1%	9,046	10,110	11,274	24%	12%	12%	21.5	19.3	17.3
TPB	6.5%	5,385	7,341	9,931	21%	36%	35%	7.7	5.6	4.2
DNSE	5.0%	381	576	824	67%	51%	43%	26.0	17.2	12.0
VHC	3.5%	1,188	1,689	2,151	33%	42%	27%	14.6	10.2	8.0
SHS	3.4%	982	1,133	1,055	76%	15%	-7%	15.8	13.7	14.7
VEA	3.1%	6,618	7,160	8,113	6%	8%	13%	7.3	6.7	5.9
FPT	3.0%	6,527	8,439	10,482	28%	29%	24%	22.9	17.8	14.5
OCB	2.9%	5,655	6,514	7,812	35%	15%	20%	5.3	4.6	3.8
Weighted average					36%	24%	20%	10.6	8.6	7.3

Source: PYN Fund Management

Banks have been kept significantly overweighted in the PYN Elite portfolio (STB, HDB, CTG, MBB, TPB, OCB). Sacombank (STB) is our largest position. Its case will be very interesting throughout 2024, as the bank will be able to resume "normal" earnings performance in its business for the first time after the asset restructuring process is completed, which has taken several years. STB's year will also sparkle by shareholding arrangements concerning shares that have been seized from the former Chairman of the Board.

The airport operator ACV's stock price was stagnant throughout 2023, but its favorable earnings outlook, growing passenger volumes in international air travel and the construction of the new airport in Saigon progressing ahead of schedule have boosted the stock's performance during the first months of the year.

SHS is a stockbroker whose earnings fluctuate substantially depending on the volumes and sentiment in the stock market. We expect the company's earnings to improve significantly this year, supported by the general increase in activity on the Vietnamese stock market.

DNSE is a technology company whose main product is a digital stock trading platform. We invested in the company in November 2023 and own an 11% stake. The investment was made with a time horizon

of 3–5 years, and we expect DNSE to gain remarkably market share during that time. The company is in the process of getting listed on the main list of the Ho Chi Minh Stock Exchange, and the public trading of its stock is likely to start in Q2.

Vinh Hoan (VHC) is Vietnam’s largest exporter of pangasius fillets. The fish are fully utilized, with Vinh Hoan’s processing plants. Increasing quantities of fatty acids and collagen are sold for use by the pharmaceutical industry. The price of pangasius fell substantially last year, and we began buying the stock in November. The decline in the price led to a contraction in pangasius farming, which will cause an upswing in the price cycle. As a major producer, Vinh Hoan has contract prices with its international customers. This means that the benefits of the new price cycle will have a delayed effect on earnings.

VEA’s automotive and moped business is gradually recovering from weak consumer demand, but we can’t expect any miracles when it comes to the development of the company’s businesses. Still, the company has remained extremely profitable even during weakened consumer demand, and its cash dividend yield over 10% has kept the stock in our portfolio.

FPT is a service company in Vietnam’s rapidly growing IT industry. It has a stable future outlook. CMG’s weight in our portfolio is almost as large as FPT’s. It is the second-largest company in the same industry, behind FPT. We expect CMG’s growth to even outpace FPT. The key business areas seeing rapid growth at present include data centers, systems engineering, IT-coding, and AI-related services. FPT and CMG have a combined weight of nearly 6% in the PYN Elite portfolio.

Banking stocks in the PYN Elite portfolio

Looking at the three-year data on the banking stocks in our portfolio, they previously traded at P/E ratios of 10–12 in favorable market conditions. The rolling P/E is now at 7.6, and the P/E forward earnings for 2024–2026:

2024	6.2
2025	5.1
2026	4.2

The banks traded at P/E ratio levels 10–12. In 2024 P/E would fall to 6.2.



Source: Bloomberg, PYN Fund Management

Over a period of three years when the sentiment in the stock market was positive, these banks had P/B ratios of roughly 2.0. At present, their rolling P/B is 1.3. The P/B projections for 2024–2026 are as follows:

2024	1.1
2025	0.9
2026	0.7

The banks traded at P/B ratio levels 2.0 – 2.2. In 2024, their P/B would approach 1.0.

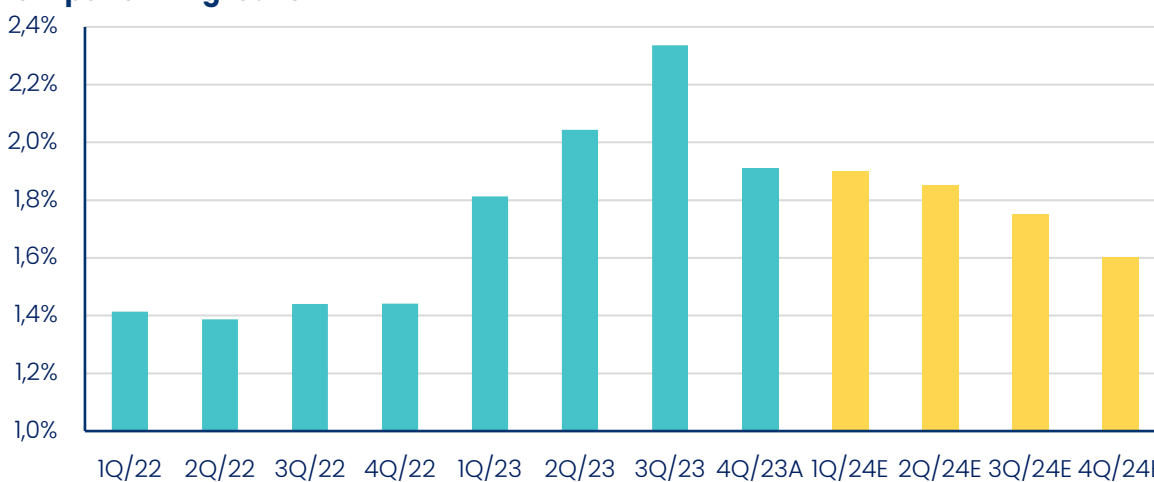


Source: Bloomberg, PYN Fund Management

Banks remained very profitable in 2022–2023, but earnings growth was subdued especially due to increased loan provisions. The weakened situation in the domestic market in Vietnam led to a slight increase in non-performing loans, which were at their worst in Q3/2023. The chart below shows the past trend in non-performing loans and the projected figures for 2024.

NPLs in the Vietnamese banks are declining, having peaked in Q3/2023

Non-performing loans

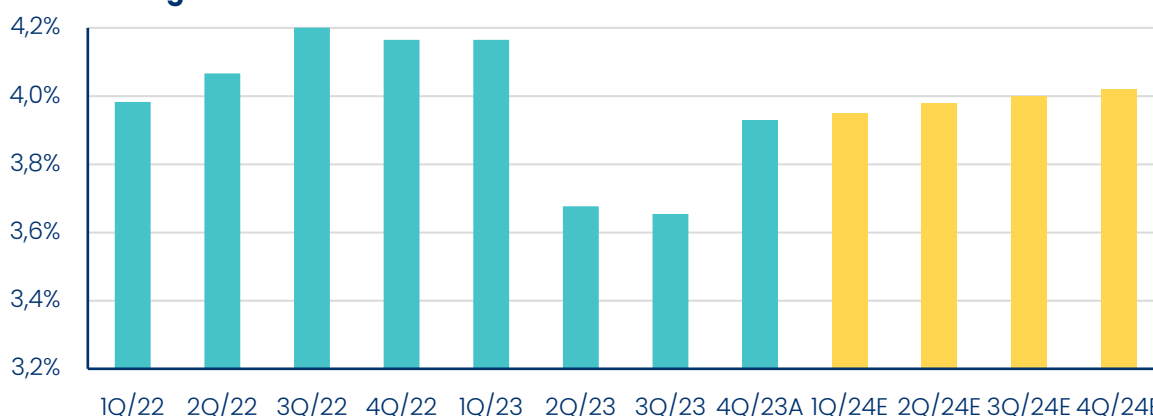


Source: PYN Fund Management

The slowing of earnings growth for banks was mainly due to banks losing out on interest income due to non-performing loans and flexibility in loan terms for certain customers who are still meeting their obligations. The net interest margin (NIM) of banks bottomed out in Q2–Q3/2023. In general, Vietnamese banks are highly profitable. It is a standard for the banks to have an interest margin as high as 4% on their loan portfolio because economic growth in Vietnam is brisk and the customers make profitable returns with the borrowed funds. Plenty of banks in operation, and the banking sector is accustomed to competition.

Vietnamese bank’s NIM is improving after bottoming out in Q2–Q3/2023

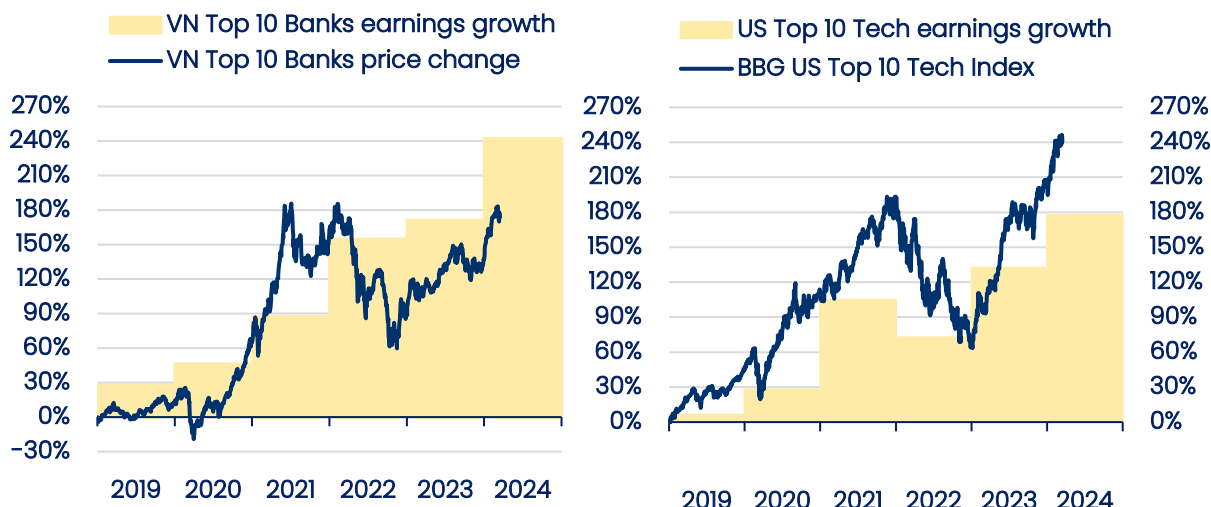
Interest margin



Source: PYN Fund Management

Over a five-year period, the stocks of Vietnamese banks have performed well, but their earnings growth has outpaced the rise in stock prices. There was a pause in their stock price performance in 2022–2023 in particular. The sector’s valuation relative to the earnings outlook is currently attractive.

Vietnamese banking stocks have lagged behind earnings growth, while U.S. tech stocks have outpaced earnings.



In both: 2018 as base year in earnings growth. Source in both: Bloomberg, PYN Fund Management

The U.S. tech sector has companies similarly to the strong growth Vietnamese banking industry. The earnings growth of the 10 largest U.S. tech companies has been slightly slower than that of Vietnamese banks, but the prices of tech stocks have rallied more, which makes US tech stocks pricey by comparison. At the same time, the tech stocks should be evaluated in the light of company-specific strengths. In emerging industries, investors need to pick precisely the right stocks as earnings growth outlook of individual companies fluctuate vastly. Looking back 10 or 20 years, it is clear that the winning candidates change from one cycle to the next due to the high competition and growth expectations maintains high tensions regarding the expected returns. Right now, the expectation is that Nvidia and Amazon, in particular, are likely to improve their earnings substantially, which is likely to drive their stock prices to new highs as the year goes on.

The rise in U.S. productivity in 2000–2002 did not prevent the stock market crash of 2000

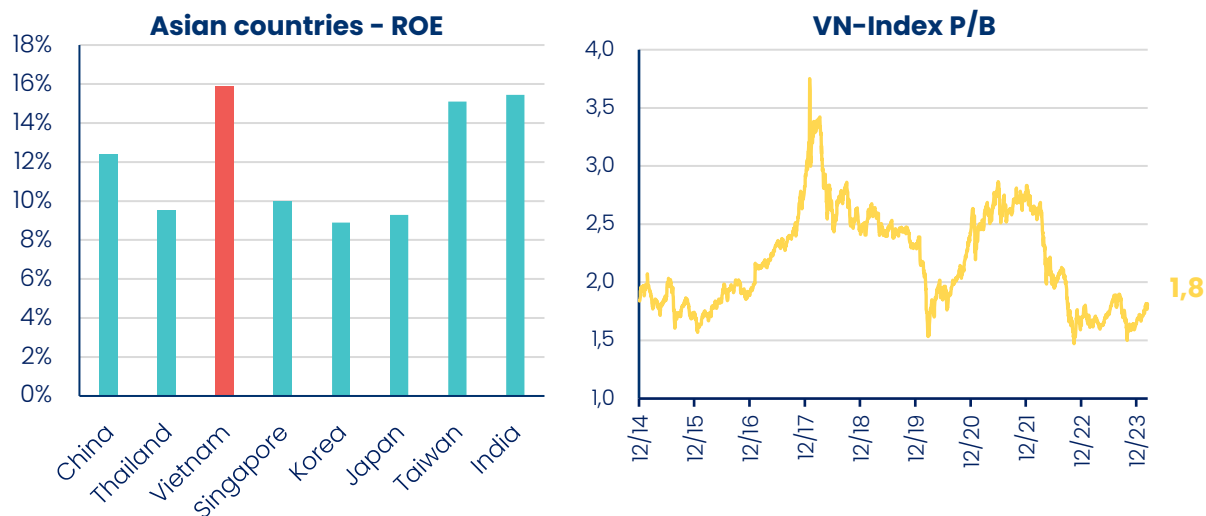


Source: Bloomberg, U.S. Bureau of Labor Statistics

The 1990s bull market ended with the dot-com bubble bursting in 2000, when stock prices crashed despite many companies continued showing positive earnings growth. The crash occurred because companies' market capitalizations had outpaced their earnings growth for several years. The internet and wireless communication created tremendous new opportunities and fueled expectations of practically unlimited upside in company valuations, as productivity throughout the economy would be massively boosted by the new technologies.

In recent times, the impact of AI on corporate productivity has been the subject of a great deal of speculation. Tech stocks may rally significantly in the next few years, but it is important to keep in mind that the rise in productivity in the U.S. economy in 2000–2002 did not prevent a stock market crash when returns expectations reached extreme levels.

Vietnam the best, but stocks are cheap – the best action is to hold and wait



Source in both: Bloomberg

Vietnamese listed companies have the highest return on equity in Asia. This speaks to their ability to deliver profits to their shareholders, which is one of the most important indicators of the quality of listed companies. The market capitalization of the Vietnamese stock exchange, relative to the balance sheet value, has fallen to a low level. This gives a rough idea of the Vietnamese stock market's significant upside potential, once the financial markets become supportive again.

All we need to do now is sit back and wait:

- 1) Let's let the stock market perform, supported by strong quarterly earnings.
- 2) Let's let Vietnam's domestic market demand recover to its full capacity in 2024–2025.
- 3) Let's let the Fed and the ECB move to a new phase of interest rate cuts, which will allow the currencies in emerging markets to move from depreciation to appreciation.
- 4) Let's let the modernization of the Vietnamese stock market to progress, taking the market toward EM status.

This is a time for patience and a cool head. Let's hope that the markets will deliver good results over the next nine months.

The next PYN Elite subscription date is 28.3.2024.

PYN ELITE
Petri Deryng
Portfolio Manager

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PYN Elite

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