

WE ARE STILL EXCITED ABOUT THE UPSIDE POTENTIAL FOR THE VIETNAMESE STOCK MARKET

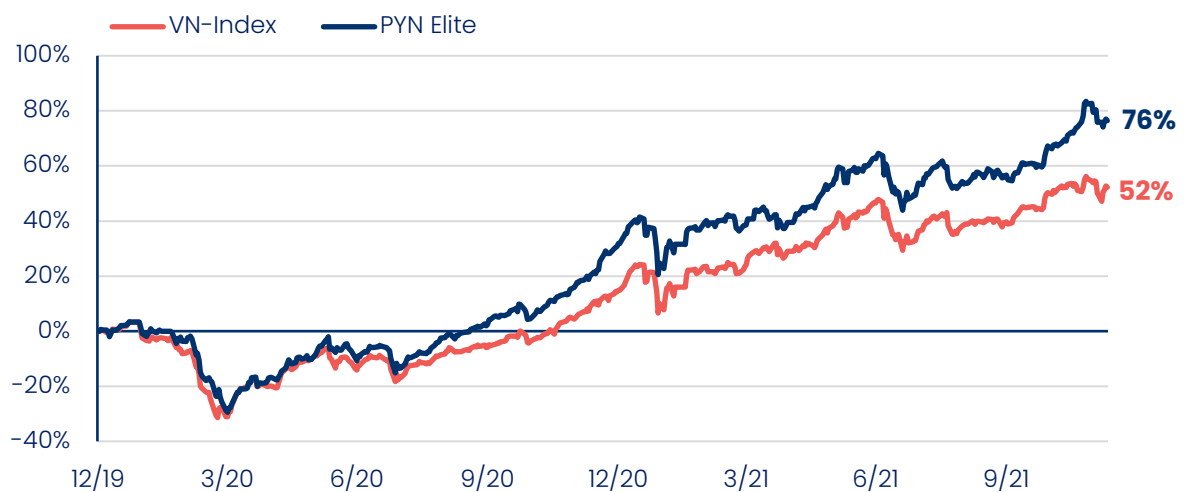
The keynotes of our investor letter:

- PYN Elite has performed well, but the big-cap companies are lagging.
- Strong earnings growth is expected for the period of 2022–2024.
- We raised our target level for the VN-Index. The new target is 2,500 points.

The COVID-19 pandemic that has now lasted nearly two years has created challenges not only in the daily life of families but also for workplaces and businesses.

Nevertheless, for investors, the period of the pandemic has turned out to be better than expected in terms of returns, as central banks and national governments have maintained high liquidity in the financial markets and reference interest rates have been kept at a historically low level for a record-long time. PYN Elite has generated a return of +76 percent during this two-year period. The performance has been uneven among our holdings, and we have also taken profits from many positions and reallocated those funds.

PYN Elite NAV is up 76 percent from the beginning of 2020 (VN-Index +52%)



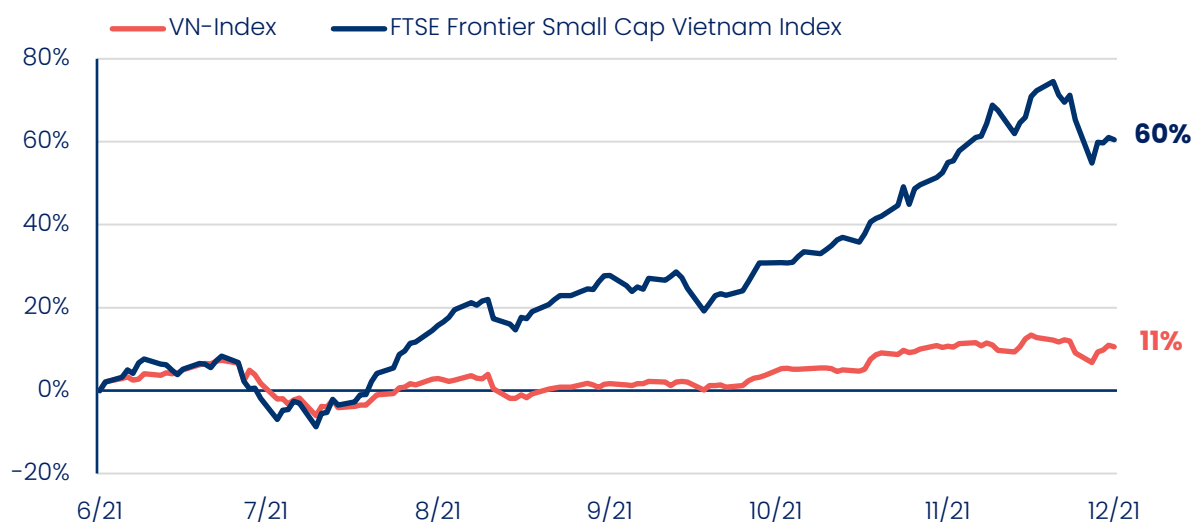
Source: Bloomberg

As the chart above shows, PYN Elite has generated good returns and outperformed the VN-Index. The rally seen in the Vietnamese market this past fall has been exclusively driven by small or mid-cap companies.

In the PYN Elite portfolio, excellent returns have been generated by, for example, small real estate companies whose stocks have surged during the past six months. The favorable changes in the value of land assets on the balance sheets of real estate companies were not previously reflected in their share prices, and investors have bridged that gap during the past few months by actively buying those shares.

In addition, among the bank stocks in the PYN Elite portfolio, the share prices of small cap banks have surged and helped our portfolio outperform the index.

An autumn rally of small cap companies on the Vietnamese market



Source: Bloomberg

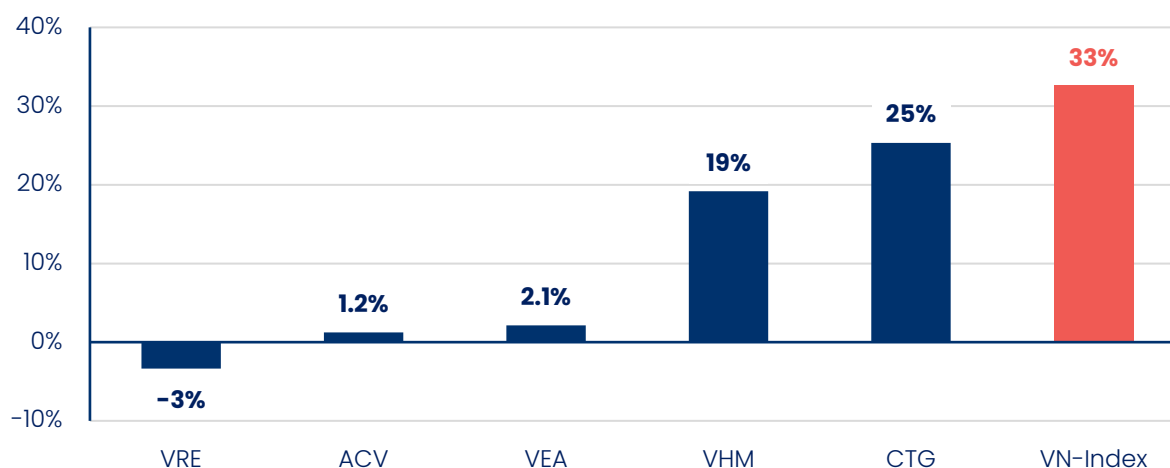
While it is nice to celebrate the returns that have been achieved, we could also regret the returns we have missed out on as the performance of many large cap companies shares has been very modest compared to small cap companies shares during the past six months. During the pandemic times, we have reallocated PYN Elite's funds particularly to large companies and businesses, which have suffered from the restrictions introduced in response to the pandemic.

For a long time, the Vietnamese government did an excellent job of keeping COVID-19 infections under control but, contrary to our expectations, the infection situation in Vietnam turned bad in summer 2021 due to the spread of the Delta variant. The prolonged negative impacts of the pandemic have slowed down our selected companies' earnings recovery back to the normal track of growth.

During the past fall, quick progress has been made with vaccinations in Vietnam, which creates a comforting view regarding companies' earnings growth for next year. Our expectations are focused on the potential for outperformance of the large cap stocks and especially those whose earnings will improve significantly after the pandemic times.

PYN Elite portfolio's 54% weight seems to be still out of action

Return YTD



Source: Bloomberg

VRE – portfolio allocation 9.4%

A developer, owner and operator of shopping malls in Vietnam that has had to temporarily reduce the rents of its long-term tenants due to COVID-19 restrictions. In spite of this, VRE has continued to achieve fairly ok earnings, even if its performance falls well short of targets especially in 2021. We expect the company's earnings to return to growth in the near future when the rent reductions are no longer in effect. The company also plans to open new shopping malls. In light of these factors, its earnings growth for the next few years will look very good.

ACV – portfolio allocation 6.5%

Thanks to its strong balance sheet, the Vietnamese airport operator has achieved positive results during the pandemic in spite of a dramatic decline in traffic volumes at its airports. Despite the lifting of restrictions on domestic travel, passenger volumes have been very low in October–November. The Civil Aviation Authority of Vietnam has proposed that normal international air traffic be resumed in 2022. ACV's earnings are expected to grow for the next ten consecutive quarters. We believe the share price will react to this development.

VEA – portfolio allocation 8.4%

The sales of mopeds and cars were very low in Vietnam in the third quarter as the fourth wave of the COVID-19 pandemic led to complete restrictions on movement in several cities. Sales improved in October–November. In addition, the Vietnamese government's 50% reduction in the registration fees of new cars took effect at the beginning of December, which will also help stimulate car sales in the next few months.

VHM – portfolio allocation 17.3%

Vinhomes is the largest owner of land zoned for housing in Vietnam, but its share price has lagged in spite of the fact that the company will achieve a very good result for 2021. The company's existing megaprojects in cities have been sufficient to generate a good level of sales, but the COVID-19

pandemic has slowed down the launch of new projects such as Dream City, Wonder Park and Long Beach. While the launches have been delayed, construction on these new projects has continued without disruption. This means that, after they are launched, their revenue may be booked faster than previously intended. Vinhomes' projects are tremendously large in scale. For example, Long Beach – referred to as the Miami of Vietnam – covers an area of 2,800 hectares. With this scale, the new launches will generate sales for as long as 10–15 years. The difficulties of the Chinese real estate giant Evergrande and the electric vehicle projects of the Vinhomes Group's parent company have perhaps been the main reasons for the moderate performance of the share. Vinhomes has a strong balance sheet, with the debt-to-equity ratio being only around 10 percent.

CTG – portfolio allocation 12.2%

Vietinbank is a large state-owned commercial bank that has improved its profitability to a good extent in 2019 and 2020. The bank's earnings for 2021 will again show growth, but Vietinbank would grow much faster if it weren't for the central bank's provisioning guidelines. According to the guidelines, excess provisioning is required of banks during the year of the pandemic, even if there is no actual threat of credit losses. The bank's earnings will grow more briskly in 2022 when provisioning returns to normal and Vietinbank starts to recognize bancassurance fees.

New target for the VN-Index set at 2,500 points

Before I wrap up this Investor letter, I would like to announce that we have made a substantial adjustment to our target for the VN-Index.

We have learned a lot during PYN Elite's years in Vietnam (2013–2021). The competence, assertiveness and determination of the Vietnamese government has surprised us. The government's decision-making is characterized by a systematic and long-term approach instead of being guided by populism.

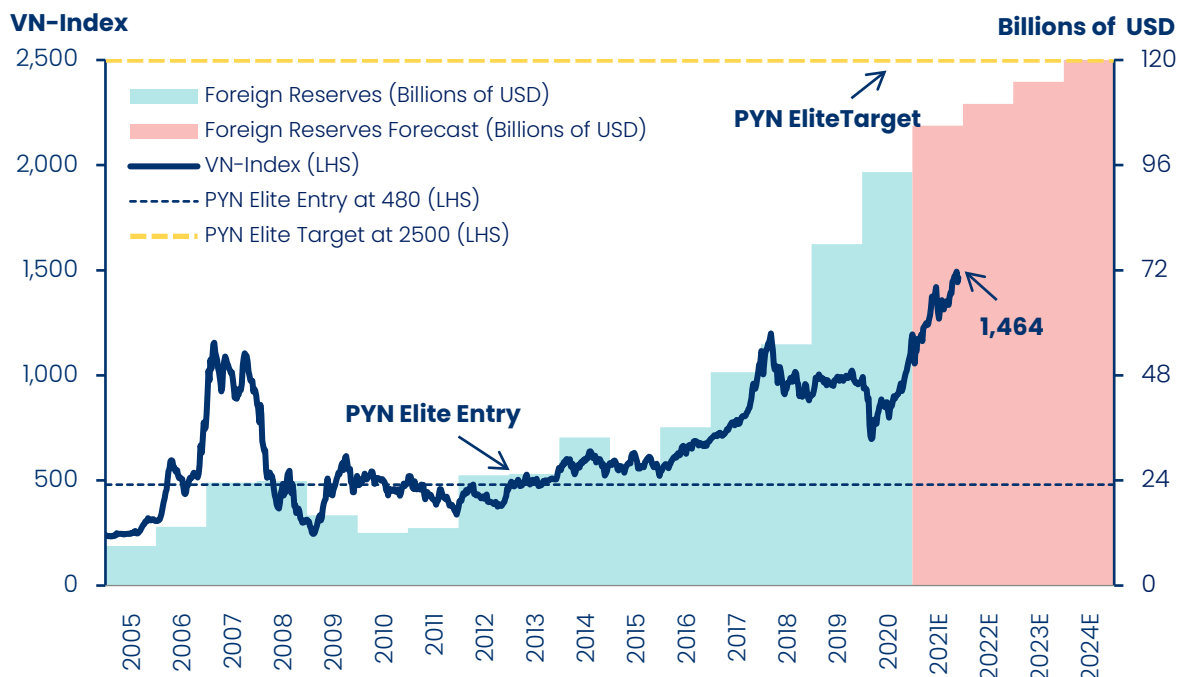
Of course, it came as no surprise that the Vietnamese people are enterprising and energetic. The country is still young and developing, but the people are sophisticated. The Vietnamese government's investments in high-quality basic education and especially mathematics will have a favorable effect on the country's economic growth in the future.

The government's investments in renewable energy also create promising prospects for future competitiveness. The country is industrializing quickly, and it needs significant investments in power generation. It is astonishing that Vietnam has already invested more in renewable energy than any other country in Southeast Asia.

The next few years also look very promising in terms of the earnings growth of Vietnamese listed companies. The public sector has put together a massive investment package for 2022–2023 to stimulate economic growth after COVID-19. Vietnam's level of debt will remain very low in spite of the significant new spending, which means that the progress of the country's economy should not be threatened even by the gradual global rate hikes.

We expect earnings growth on the stock market to be +28 percent in 2022, +20 percent in 2023 and +18 percent in 2024. Our forecast for the P/E ratio in 2024 is 16.5. Based on these expectations, we concluded to change our target for the VN-Index to 2,500 points.

PYN Elite's new target for the VN-Index is 2,500 points



Source: Bloomberg, PYN Fund Management

The strong accumulation of foreign exchange reserves has significantly reduced Vietnam's country risk. The government bond yields in Vietnam have fallen to 2 percent after being at the level of 6–8 percent only a few years ago. We expect interest rates to remain at the low level of 3–4 percent for the next few years.

These factors allow higher multiples for the stock market. We expect the VN-Index to occasionally trade at multiples as high as P/E 20–25, although the 2,500 point target level we consider realistic for the VN-Index is based on P/E ratio of 16.5.

One last item of good news to include here – and one that speaks to the attractiveness of our target country – is the Lego Group's announcement of a billion-dollar investment in Vietnam. Maybe in a few years' time, we can give Lego bricks made in Vietnam as Christmas presents.

Happy Holidays to all of our customers!

PYN ELITE
Petri Deryng
Portfolio manager

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