

27.03.2018

Investor Letter 1/2018

Dear Customer,

## VIETNAM IS A GROWTH STORY

Good news from Vietnam. Vietnam's economy exhibits resilient strengths. Export competitiveness remains well intact. Foreign investments keep pouring into various industries. Government is piling up cash from SOE privatizations and boosting infrastructure investments with this additional funding. The President of the United States, Mr. Donald Trump, is busy interrupting the status quo of world trade, but American protectionist moves seem to aim at only certain key product groups. Long before Trump's administration, Vietnam had experienced anti-dumping measures, for instance on its seafood exports. Despite the extra duties, Vietnam has performed well in world trade and continued gaining market share substantially in the world trade in the last 10 years. On the other hand, it is worth mentioning that Vietnam has had anti-dumping tariffs on Chinese steel imports for quite some time, indicating support to Mr. Trump's findings of unfair trade.

The pillars of Vietnam's domestic economy, banks and real estate, have recovered from the downturn years of 2009-2012. The strengthened balance sheets of the banks and real estate companies lay foundation for sustainable long-term growth of Vietnam's economy. Global trends of IT developments make it difficult to compare Vietnam's current economic status versus its more developed ASEAN peers. In various sectors, rapid IT developments can leapfrog Vietnam's modernization, fast adoption of international standards, and put the country on the technological fast track. For example, the usage of mobile QR code is adopted rapidly in Vietnam. To illustrate the ample room for future growth, simple statistics is helpful: Currently, only 3% of Vietnamese own a car and 4% takes out a mortgage for their home. This country of almost 100 million people will keep moving forward and urbanization will continue, no doubt.

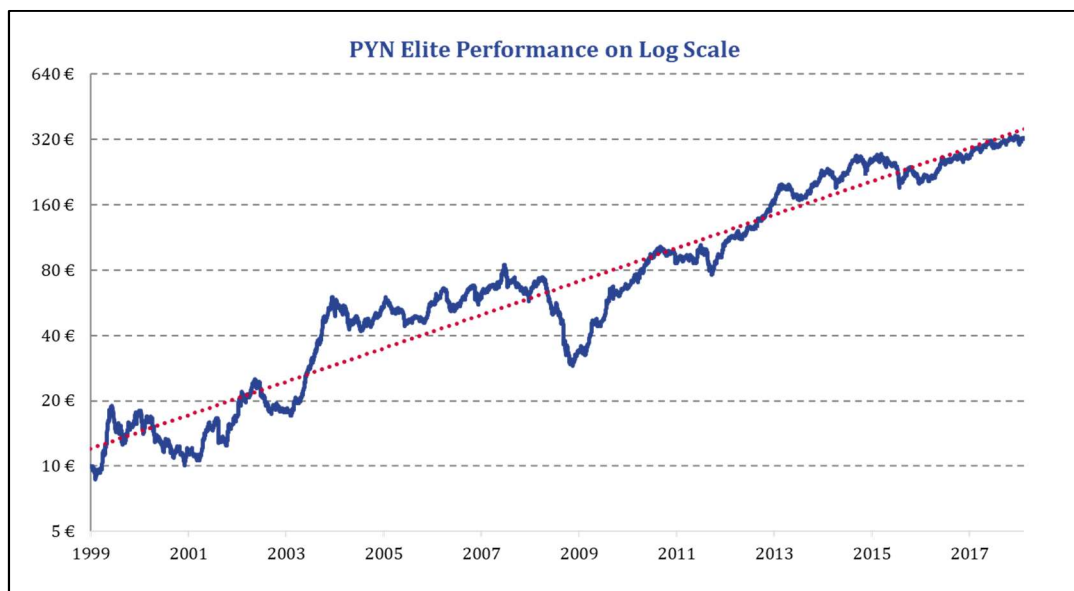
Vietnam's economic growth seems to accelerate. The Q1 GDP growth is forecasted at 7.4% YoY. Stock markets have kept its good momentum since last year, despite the early February sudden sell-off put some breaks on the triumphant performance. The optimistic expectations of future performance of Vietnamese market are based on the growth of both its broad economy and the listed companies' revenue and earnings. If history is any guide, stock markets tend to have massive surge in stock prices occasionally, at a very strong uptick, if it is to be followed by strong earnings growth in the coming years.

## THE STRATEGY OF PYN ELITE

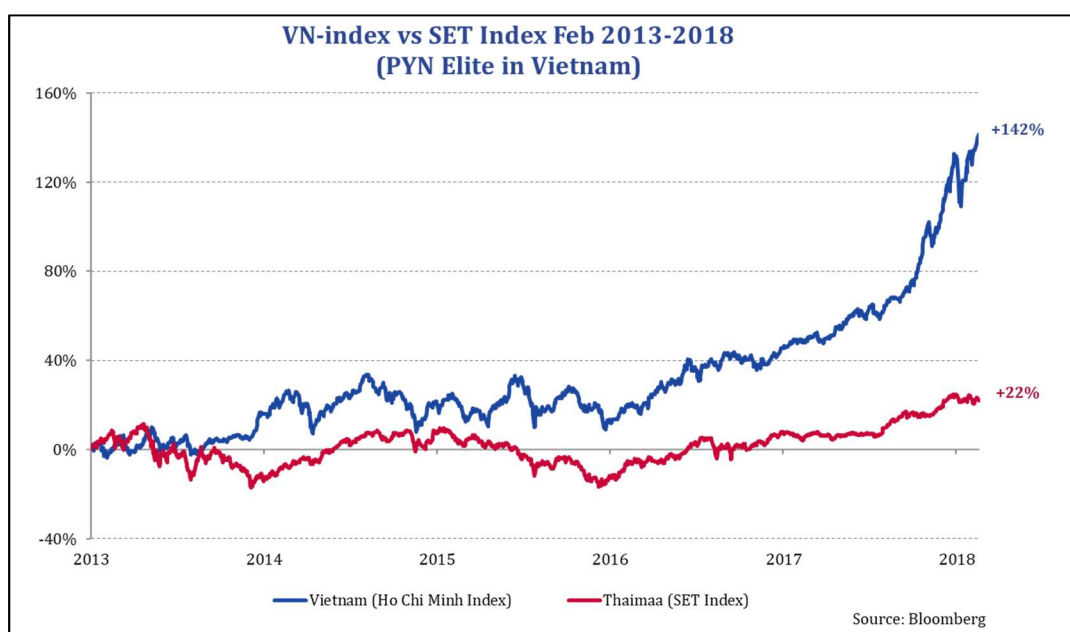
PYN Elite fund's basic strategy is to enter into new markets at right timing, and it seems working well. The fund began investing into Thailand since inception year 1999. PYN Elite has never held any ties to any target countries permanently. In our fundamental analysis, we combine statistics of macroeconomic and stock market, and run our models to forecast potential future performance of the market. In the case of Vietnam, long before we actually made a decision to move our funds from Thailand into Vietnam, we had spent 10 years following the Vietnamese economy and stock market developments. During the difficult years of 2009-2012, I met many interesting Vietnamese companies, but kept waiting for the right moment for our entry. The decision matured in autumn of 2012 and in February 2013 we started shifting money into Vietnamese

companies after spending 13 years in Thai market. PYN Elite's NAV has grown 30-fold in 19 years from 10 euro to over 300 euro per unit. Our historical return CAGR is around 20%.

Since entering into Vietnam stock market, the fund's NAV has doubled. The actual return from our Vietnamese investments has been even greater than 100% in the past 5 years, as during 2013-2016 we still had some remaining of Chinese stocks that dampened our overall returns.

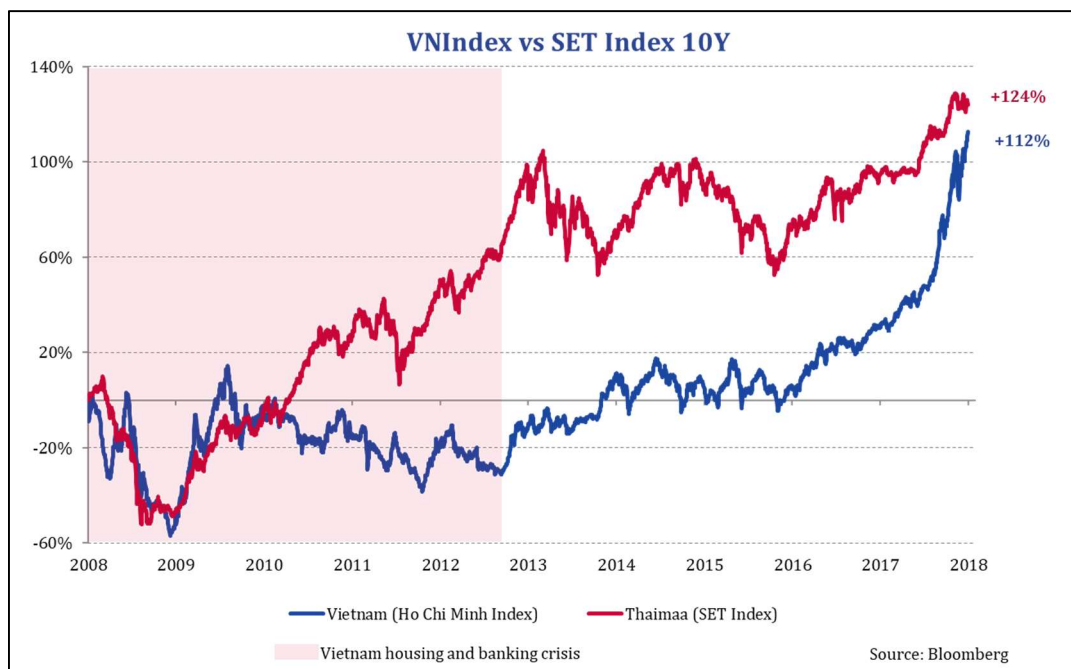


The trendline is up and to the right in this logarithmic scale chart for PYN Elite performance. In the last 3 years, PYN Elite NAV has been trading upwards, but slight below the trendline of 20% long term average annual return. In 2017, the trendline could have been crossed over by our actual returns if valued by local currency, but the unfavorable EUR/VND forex pair movement shaved off over a third of our fund's returns.

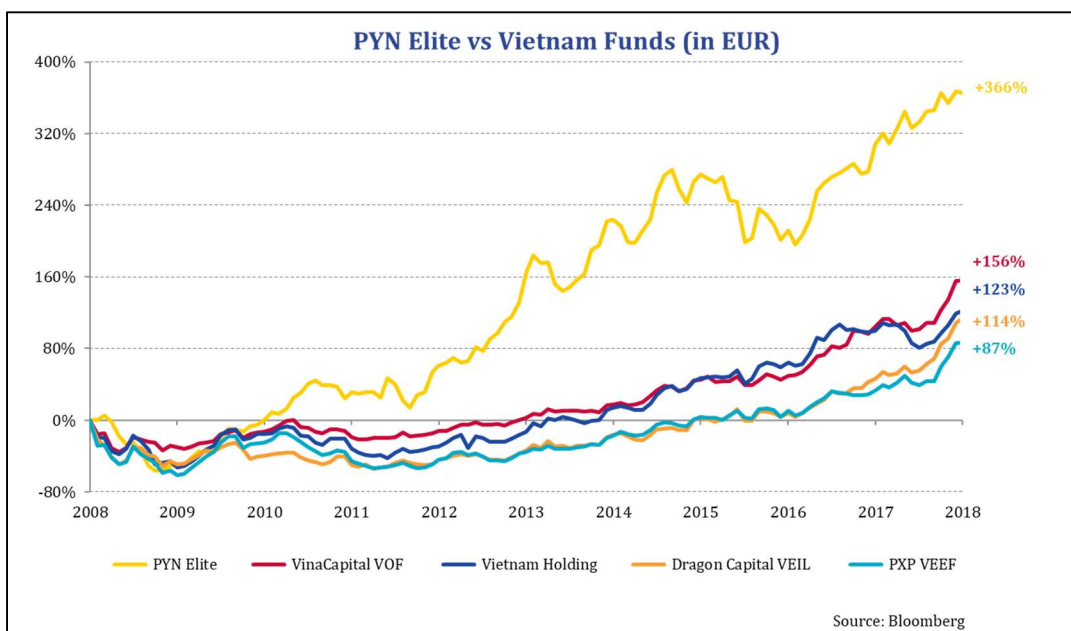


The VN index has emerged as an extraordinary performer since we moved into Vietnam. Meanwhile, Thailand's SET index continued to drift higher after we cashed out our holdings, but at a far slower pace. We have viewed the Thai market as a bit pricey, in the context of slowing

GDP growth and the unstable political backdrop of the country. Our timing for the switch from Thailand to Vietnam has been successful.



Notably, Vietnam has not yet closed the performance gap between Thailand and Vietnam in 10 years' time frame. We expect Vietnam's index 10-year rolling performance to surpass Thailand's index soon, and Vietnam's index to outperform Thai index in the next 5 years.





The correlation between macroeconomics and stock market performance becomes evident when we compare PYN Elite fund's performance with the long-term local funds in Vietnam. In short run, these well-managed country funds have achieved superior returns, but in long run these same funds show rather moderate gains, hurt by the challenging years 2008-2012 in Vietnam.

## PYN ELITE CORE HOLDINGS SHOWING GROWTH - THAI PEER COMPANIES NOT

We decided to conduct an analysis on how PYN Elite Core holding companies in Vietnam are running their businesses in comparison to their Thai peer companies. Our aim was to look for publicly listed companies in Thailand with identical or similar businesses with our Vietnamese holdings; although many companies are operating in same sectors, there are still huge differences between these companies in terms of segment and business models. In the end, we narrowed down the comparison only to the revenue and net profit growth ratios for the past 5 years. I am surprised with the outcome. Of course, we were aware of the fact that Vietnamese companies must have had good growth, especially from the economic bottom year of 2012 in Vietnam (for that reason, some of the growth ratios much be read from this context accordingly.) But it is staggering how slow the growth has been in various sectors in Thailand, e.g. banking, construction and housing markets. The study covers years of 2013-2017 and show the CAGR (compounded annual growth ratio) of revenue and profit of these Vietnamese and Thai companies.



### BANKS

	HDB	+56 %	Revenue growth	+4 %	KBANK	
	TP Bank	+46 %	Profit growth	+5 %	KKP	

*CAGR 2013-2017 (Compound Annual Growth Rate)*

Midsize Vietnamese banks with modern management style have been growing remarkably since the bottom of the Vietnam's banking and real estate crises in year 2012. Now with strengthened balance sheets, active product and service launches, the market potential is waiting to be captured and turned into very good business for these bank in years to come and CAGR ratios will stay at high level, although a bit moderate than last 5 years in our estimations. Auto lending, mortgages, consumer loans, debit/credit cards, payments, point-of-sale systems are all very attractive businesses for banks. Some data to shed lights on Vietnam's banking growth prospects: Credit card penetration in Vietnam 5% vs Thailand 31%. Household debt/GDP in Vietnam 17% vs Thailand 68%, and Mortgage/GDP in Vietnam 5% vs. Thailand 23%.



### HOUSING

	NLG	+167 %	Revenue growth	+0 %	LPN	
	KDH	+684 %	Profit growth	-2 %	AP	

*CAGR 2013-2017 (Compound Annual Growth Rate)*

Due to the deep slump in housing market during 2009-2012, the last 5 years' (2013-2017) CAGR numbers look incredibly good for Vietnamese developers. In 2012, at the bottom of the cycle, there was almost no new housing project to be developed in Vietnam. Thai housing market has been moving sideways in the last 5 years. Going forward, Vietnam's housing market growth will normalise and market size will reach new higher levels of annual volumes in the next 3-5 years. Demand in affordable and mid-range residential projects is to be underpinned by strong urbanization.



## CONSTRUCTION

	CII, HBC, VCG, FCN, HUT	+26 % +42 %	Revenue growth Profit growth	+10 % -13 %	CKP, STEC, SYNTEC, SEAFECO, BEM	
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*CAGR 2013-2017 (Compound Annual Growth Rate)*

We have invested into several construction companies in Vietnam. Despite those companies differ a lot from each other, certain characteristics are the same for this sector's companies. Two main reasons for our investments: 1) This sector offers very solid revenue and profit growth for the next 5 years, if not unnecessarily get uneasy by the quarterly volatility in their bookings. One can be interpreted that in the case of Vietnam, you purchase in growth companies when investing in construction sector. 2) Secondly, during the years of rapid growth of infrastructure in Thailand, this sector enjoyed very high valuation ratios due to solid growth prospects and sector's real estate assets appreciation potential. The PE ratios of Thai peer companies reached the 30X level for many of those companies. By contrast, Vietnamese companies trade at 5x-7x PE levels. Actually, this sector in Thailand still has very high PE's even though growth has calmed down. On the other hand, this is a sector you don't want to invest in during a macroeconomic crash. But it should take at least more than 10 years to reach an unhealthy conditions and see the next possible economic crises in Vietnam.



## HOTEL DEVELOPER

	CEO	+81 % +71 %	Revenue growth Profit growth	+5 % +40 %	ERW LRH	
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*CAGR 2013-2017 (Compound Annual Growth Rate)*

Our small but persistent northern developer is having its BIG YEAR this year. Novotel hotel in Phu Quoc island running at high occupancy, price of surrounding land areas appreciated very fast, leading to remarkable hidden value to CEO group assets: the handover of a popular villa project this year will pump up the company's sales and profit. We expect within 2018 Vietnam government to finalize the special economic zone status for Phu Quoc island and Van Don island, in which CEO has accumulated large land bank via latest acquisition, that has not yet been even included to any asset calculations.



## BROKERS

	VND	+39 % +41 %	Revenue growth Profit growth	+0 % -3 %	MBKE	
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*CAGR 2013-2017 (Compound Annual Growth Rate)*

Brokerage business has also enjoyed in surging amount of client account openings and flourishing trading volumes, along with the VN- index performance. We cannot see any end to this trend anytime soon. Vietnam's market deregulatory progress will stimulate even further the stock market liquidity in coming years. Investment banking activities has also boosted brokerage industry. Vietnamese Corporate Bond market has vast potential to expand further. Our top pick, VN-Direct (VND) focuses on Vietnam's online retail broking. Thai broker MBKE has the same characteristics but stagnant top line growth lately.



## FOOD INDUSTRY

	PAN	+70 %	Revenue growth	+7 %	CPF	
		+36 %	Profit growth	-4 %		

*CAGR 2013-2017 (Compound Annual Growth Rate)*

Well managed, large Thai agri-conglomerate CPF surprises with very low CAGR ratios. Our Vietnamese peer company PAN is much smaller and has just been able to build up its platform to become a serious player in this industry. Comparing to Thailand's giant CPF, to Vietnam's PAN's difference is huge in their scales, but CAGR numbers tell the story well and things are just getting started in Vietnam for processed Agri/food products. Along with other big industrial players from Thailand, CPF has also started to invest into Vietnam to look for more growth.

## RETAIL

	MWG	+55 %	Revenue growth	+16 %	CPALL	
		+78 %	Profit growth	+13 %	HPRO	

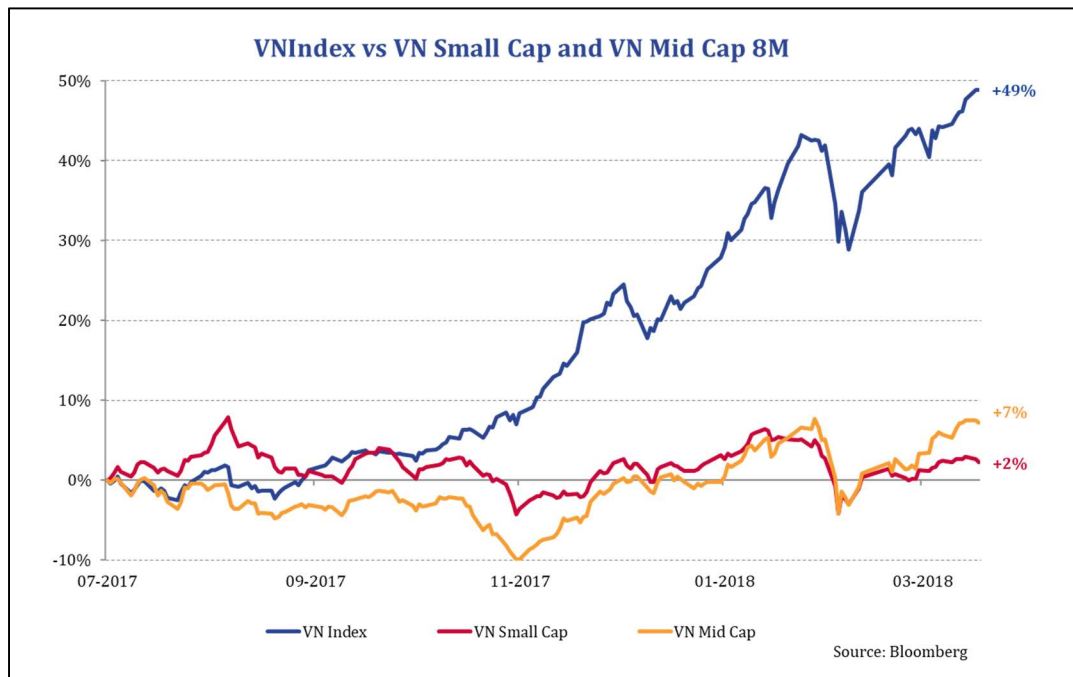
*CAGR 2013-2017 (Compound Annual Growth Rate)*

Residing in Bangkok and being a frequent shopper myself, I had expected the major listed Thai retail companies to show higher CAGR numbers than this, but maybe 12%-16% are still rather acceptable growth in the case of Thailand. At least both of these Thai retailers are trading at PE ratios of 35x-40x indicating that investors are satisfied with the growth that these companies can offer. Our Vietnamese retailer MWG Group is an exceptional company. During my last 20 years spent looking at Asian markets, it has been difficult to find such a company like this one, MWG. The business model is great - entrepreneurial and disciplined at the same time; and the management is superb, so modest and yet so full of energy. MWG trades at PE 14x for its 2018 earnings and is on its way to scale up the new retail grocery chain Bach hoa XANH. Quoting one of the company's board members "you have seen nothing yet", a pretty modest comment when looking at their 2013-2017 CAGR numbers.

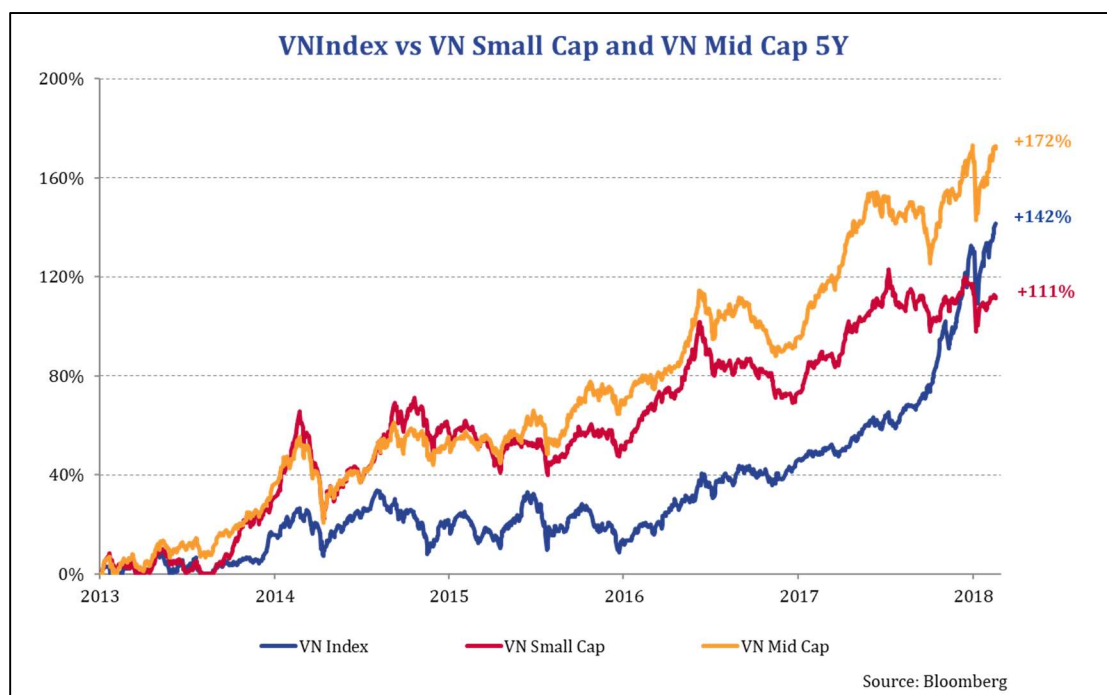
## WORLD MARKETS AND EXPECTATIONS FOR VIETNAMESE STOCKS

World equity markets are making headlines. Without any doubt, it is fair to say, that the central bank's policies of substantial extra liquidity injection and policies for low interest rates has created support to the equity markets and lead them to trade at lofty valuations. On the other hand, without an economic crisis, a war, substantial up-stick in interest rates or deceleration in corporate earnings uptrend, it is likely that the current bull market will continue and make expensive stock markets even more expensive. Many of these rather pricey markets got the start of the current bull market from the bottom of the 2008 subprime crisis. An important aspect, when analyzing PYN Elite fund's investing, is my personal investment style. I personally recognize my style to be a very focused risk taker, but at the same time a value-oriented risk avoider. To back up my story, in 1998, well before the stock markets tech bubble of year 2000, I cashed out my equity holdings in Helsinki stock market. For another 1.5 years other investors were still making money at the same market with tech stocks with skyrocketing valuations.

Vietnam has not enjoyed a bull market ride in the past 10 years since. Vietnam's equity markets faced a severe challenging downturn in 2009-2012. This plunge has created potential for the future performance of the market. Individually some Vietnamese stocks may look pretty stretched by valuations already, but one must keep in mind, that the strong economic growth may build great earnings momentum for some of those stocks to appear reasonably priced soon again. There has been a lot of talk lately in Vietnam, how some of the big cap names have performed extremely well, while small and medium cap stocks have not received any attention at all from investors.



During a very short period of time, only a few big cap stocks have been in spotlight at Vietnamese market while small-and-mid caps have had very sluggish performance. The question is not about earnings growth. The fact is that investors' interests have been only in big caps and all the new capital has been flowing into big cap names in the market. The performance divergence since last summer has created an interesting value gap between the stocks categories. Last summer, Big cap stocks traded PE 16x, while small-and-mid caps PE stood at 10x. Eight months later, the current PE ratios are 22x for big caps and 11x for small-and-mid caps. This sizeable valuation difference cannot last for long. It is very reasonable to expect the small-and mid-cap names to start attracting investor interests, because their earnings will keep rising and those companies pay out high dividends.



In a longer period of time, small-and-mid cap stocks have had very similar performance with the big cap stocks, which can be demonstrated when comparing Small- Cap and Mid-Cap indexes to the VN index, which is dominated by heavy weight big cap stocks. We hold in PYN Elite portfolio a lot of small and mid cap stocks but also not forget some weight in suitable big cap names.

In the end of this investor letter, you will find PYN Elite top holdings list attached. That document describes key numbers of our 12 largest holdings and our long-term target valuation ratios for each company.

Investors notes for year 2018:

**Positive:**

- ✓ Vietnam's GDP growth is accelerating
- ✓ Vietnam's equity market is gaining new investors' continued interests
- ✓ Government moving on with market modernizations
- ✓ Vietnamese listed companies show very good sustained earnings growth momentum
- ✓ Corporate tax cuts will make the US companies' earnings increase and markets generally can stay in uptrend.

**Challenges:**

- ✓ Will money keep pouring only into Vietnamese big caps
- ✓ Managing the forex risks
- ✓ A deal or a war with North Korea
- ✓ Interest rates will rise.

With these thoughts, I will end this investor letter and wait to have another great year of performance for PYN Elite fund in 2018.

PYN ELITE FUND

Petri Deryng  
Portfolio Manager

# Top Holdings

Company	PEAK	2017	2018E	20EE	PYN Elite upside (E)	Company	PEAK	2017	2018E	20EE	PYN Elite upside (E)
<b>MWG: Mobile World 13.0% (113,500)</b>	<b>2012</b>					<b>PAN: PAN Group 5.2% (64,800)</b>	<b>2007</b>				
Revenue	7 375	66 340	95 248	150 000		Revenue	96	4 075	9 556	12 000	
Earnings	125	2 206	2 700	4 200		Earnings	50	371	403	550	
Market Cap	5 331**	41 495	36 653	85 000	<b>132%</b>	Market Cap	1 505	4 237	7 789	10 000	<b>28%</b>
Equity	456*	5 906	6 431	12 000		Equity	216	2 716	7 158	8 000	
<b>HBC: Hoa Binh 8.3% (46,200)</b>	<b>2007</b>					<b>VCG: Vietnam Constr. 4.8% (24,800)</b>	<b>2009</b>				
Revenue	455	16 035	21 018	25 000		Revenue	13 017	11 014	12 377	16 000	
Earnings	25	860	1 037	1 300		Earnings	6	1 412	717	1 800	
Market Cap	1 444	5 765	5 999	12 000	<b>100%</b>	Market Cap	14 973	9 629	10 954	20 000	<b>83%</b>
Equity	531	2 249	4 147	5 000		Equity	2 980	6 322	8 371	11 000	
<b>CII: HCMC Infrastructure 7.4% (33,750)</b>	<b>2009</b>					<b>HDB: HD Bank 3.8% (44,500)</b>	<b>2016</b>				
Revenue	203	2 040	6 500	8 000		Revenue	4 744	6 375	10 024	17 000	
Earnings	316	1 521	1 250	1 800		Earnings	743	1 746	2 736	4 500	
Market Cap	3 682	8 643	8 311	20 000	<b>141%</b>	Market Cap	25 920**	25 920	43 654	75 000	<b>72%</b>
Equity	1 207	4 930	6 180	9 000		Equity	9 316	14 075	16 811	25 000	
<b>TPB: TP Bank 6.7% (25,000)</b>	<b>2016</b>					<b>NLG: Nam Long 3.3% (35,500)</b>	<b>2015</b>				
Revenue	2 121	3 172	5 075	8 000		Revenue	1 259	3 161	4 372	7 000	
Earnings	565	964	1 600	2 500		Earnings	206	535	800	900	
Market Cap	14 605**	14 605	14 605	40 000	<b>174%</b>	Market Cap	3 270	4 733	6 698	14 000	<b>109%</b>
Equity	5 683	6 677	10 500	12 000		Equity	2 218	2 920	5 408	7 000	
<b>KDH: Khang Dien 5.7% (35,400)</b>	<b>2010</b>					<b>FCN: Fecon 2.9% (21,400)</b>	<b>2014</b>				
Revenue	772	3 284	4 250	7 000		Revenue	1 354	2 320	3 500	7 000	
Earnings	175	507	950	1 200		Earnings	130	170	300	480	
Market Cap	2 158	9 206	13 729	18 000	<b>31%</b>	Market Cap	1 244	1 321	1 869	4 000	<b>114%</b>
Equity	1 204	5 218	7 088	8 000		Equity	734	1 105	1 305	3 000	
<b>VND: VNDirect 5.2% (29,200)</b>	<b>2010</b>					<b>CEO: CEO Group 2.1% (10,500)</b>	<b>2015</b>				
Revenue	471	1 235	1 814	3 000		Revenue	639	1 833	3 450	5 000	
Earnings	105	438	697	800		Earnings	139	178	358	450	
Market Cap	3 610	3 986	6 320	12 000	<b>90%</b>	Market Cap	1 208	1 606	1 621	5 000	<b>208%</b>
Equity	1 242	2 508	3 474	4 000		Equity	871	1 848	2 000	2 500	

Top holdings per 15 March 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.

## Disclaimer

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