PYN ELITE

Investor Letter 3/2019

18.10.2019

Dear Customer,

- PYN Elite's key holdings (82% of the portfolio) are valued at P/E 7.1 for 2021.
- Vietnam has the highest number of free trade agreements.
- Vietnam's official GDP adjustment will result in increased investments by the government.
- Listed companies show an annual earnings growth of +15–20%.
- VN Index target upgraded to 1,800 points.
- Vietnam to be included in MSCI's Emerging Market review list for upgrade within three years.

VIETNAMESE MACRO-ECONOMY

Vietnam's economy is in good health and the economic structures are sound. For ten years growth prospect, it is very difficult to see any factors that could reverse this long-term outlook. The recent (2009–2012) major meltdown of the Vietnamese banking and real-estate market, recession and bottoming out on the domestic economy laid a solid foundation for long-term structural growth for years to come. A new period of recession in Vietnam would first require several years of unhealthy development in several structural factors of the economy. Global developments of course affect Vietnam as well, but a sudden major dip in the global economy would be unlikely to result in anything more than a momentaneous slow-down of the country's exports growth. A global economic shock would impact Vietnam's equity market, but even such an event would result in a V-shaped curve, similar to the impact of the tech bubble to the Thai stock market in 2002 to 2003. It was a time of strong economic recovery in Thailand, following the 1997 and 1998 recession, and the stock market sentiment reacted violently to the tech bubble in 2000, but after that the stock market continued to track the sound development path of the Thai economy.

SET vs. world exchanges

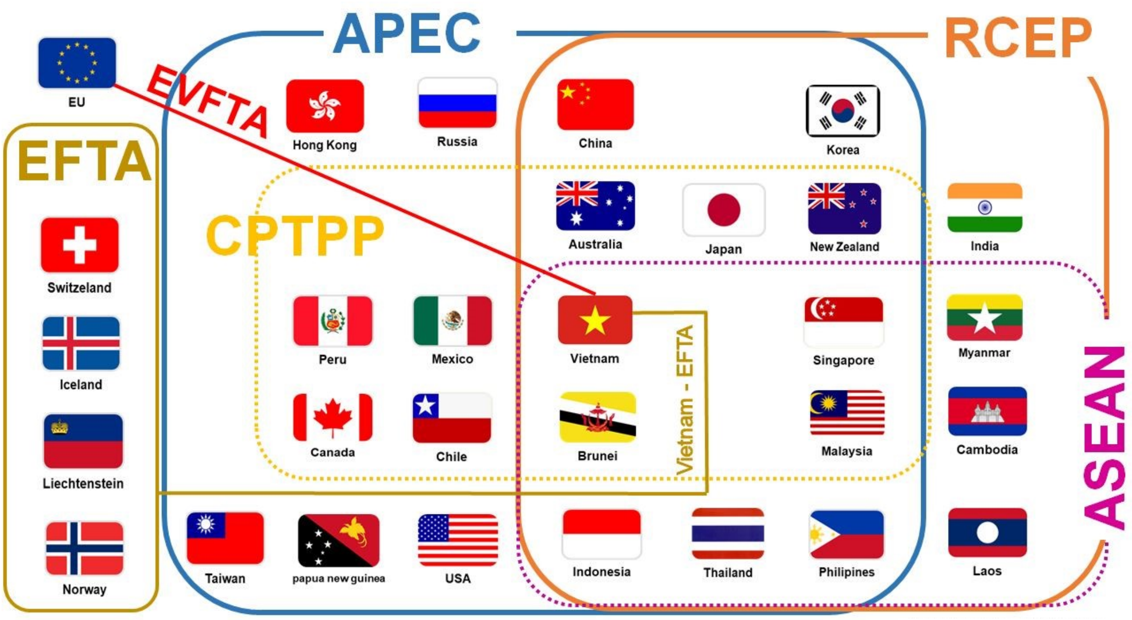
	SET	World exchanges
1999	38%	24%
2000	-43%	-13%
2001	24%	-17%
2002	21%	-20%
2003	126%	34%

Source: Bloomberg

TRADE WAR

Vietnam has benefited from the trade war between the US and China. There has been a notable increase in investment decisions into Vietnamese manufacturing and additional demand for Vietnamese exports. Some of these benefits will have a long-term impact on Vietnamese industry even if a sudden solution is found in the US-China trade deal. Vietnam holds a top position in terms of global trade policies. Some say that Vietnam has more free trade agreements than any other country in the world. Vietnam's central bank has wisely maintained the strength of dong, the country's currency, during the trade war, which has served to lower the risk of US counter measures against Vietnamese exports. Vietnam has excelled in foreign trade for more than a decade, increasing its global market share, but Vietnam's share in the imports of the US total imports is still only around 3%.

Vietnam´s Free Trade Agreements



Source: Asia Business Consulting

VIETNAMESE GDP

Ten years ago, the size of Finnish economy stood at USD 250 billion, and now, a decade later, Finland's GDP amounts to USD 275 billion. Vietnam's GDP was USD 106 billion ten years ago whereas the 2019 figure likely amounts to around USD 330 billion. Some time ago we reflected playfully with the idea of how long it would take for the Vietnamese gross national production to overtake Finland, at an annual growth rate of roughly 7%. This year, Vietnam is outstripping Finland big time. For a long time now, the Vietnamese government has been discussing with representatives from the World Bank and International Monetary Fund (IMF) on modernizing the GDP calculation method. The General Statistics Office of Vietnam (GSO) announced in August that a suitable revision model has been found and will result in a retroactive reassessment of the GDP figures by roughly +25%. We have been in contact with the representatives from the World Bank data department concerning the suggested reassessments, and we were given a green light for these types of changes, which allows us to conclude that this is not just a tricky attempt by the Vietnamese government to decrease the relative debt ratio of public finances.

We attached below calculations on the effect of the planned changes to few key macro-economic figures. In our view, this matter is very important and may enable the Vietnamese government to finance and carry out new investments.

Suggested adjustment of Vietnam´s GDP calculation method

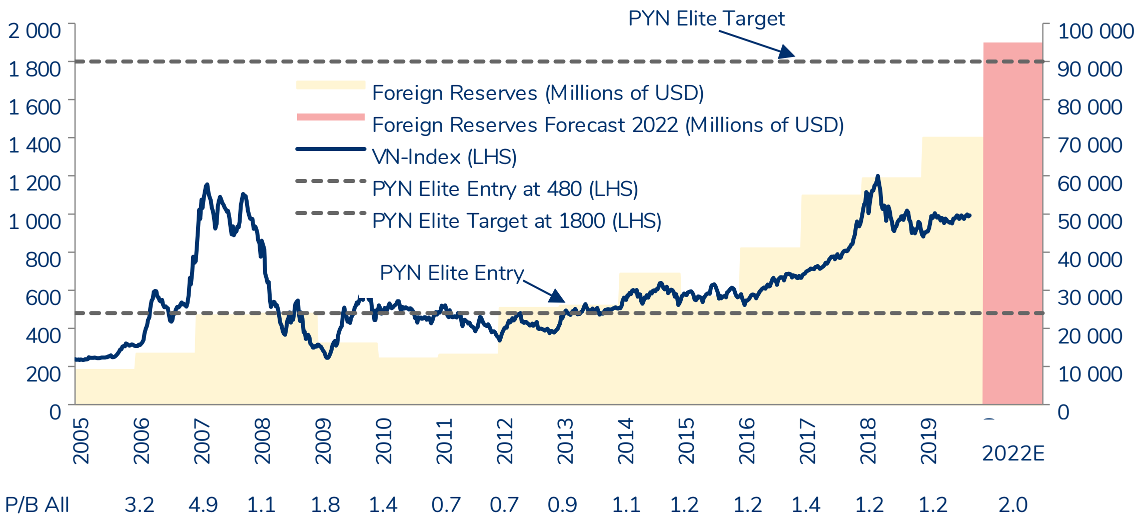
	Old calculation		Revised calculation	
	2018	2019	2018	2019
GDP (bn. USD)	245	265	307	332
Government dept/GDP	58%	53%	47%	44%
Vietnam external debt/GDP	46%	42%	37%	34%
Stock markets Mcap/GDP	72%	74%	58%	61%
GDP per capita (USD)	2 564	2 730	3 215	3 424

Source: World Bank, GSO, Treasury of Vietnam

VN INDEX TARGET UPGRADE

We have upgraded our target level for Vietnam's equity market to 1,800 points because the visibility of the country's economic growth forecasts has improved, and the ongoing sound earnings growth of listed companies seems even more likely to continue for years to come. Setting a target for year 2022 in this sense is more difficult to predict when it comes to the setting of the exact year, as global events significantly affect the realized speed of reaching target levels for the index. However, global events do not play a crucial role when it comes to defining the target level for the index itself. We believe that the modernization of the Vietnamese financial market will progress in many ways and will result in Vietnam's acceptance to MSCI's Emerging Market review list for an upgrade within three years. The elements of this modernization include: new securities law, changes to the current investment and enterprise legislation, revamp of the stock exchange trading system to enable day trading (i.e. using receivables from sell trades to buy trades), as well as practical changes to the foreign ownership limit (FOL) on listed companies. The VN Index target level chart indicates the growth of Vietnam's currency reserves, which will decrease Vietnam's country risk and is a co-factor in the upside potential of the country's stock market valuation ratios.

New target for VN Index



Source: PYN Fund Management, ADB, Bloomberg

For the last two or three years the Vietnamese stock market has been dominated by cash flows from Korea, which have ended up in the biggest index companies on the stock market. This development has coincided with investment flows from ETF funds, which have focused on the VN30 companies. The differences in the valuation ratios between the stock market's big-cap companies compared to the small- and medium-caps have increased and are already excessively mispresenting the valuations of the companies' fundamentals, even though a certain amount of valuation difference can be justified based on liquidity and risk levels. Similar polarization has been seen elsewhere too, in the US stock markets vs. emerging markets, the strength of the US-dollar, etc. Fundamentally, the most attractive stocks can be found in the markets that have underperformed the global performance, as well as in the underperformed sectors of such markets.

P/E ratios - PYN Elite core companies, VN30 and VNX All Shares -indices

	2019	2020	2021
PYN Elite*	9.7	8.5	7.1
VN30-index	16.7	14.3	12.2
VNX All Shares	13.1	11.1	9.4

Source: PYN Fund Management, Bloomberg

*PYN Elite's "core holdings" include 23 portfolio companies that amount to 82% of the entire portfolio. For PYN Elite's key holdings, the P/E ratios are fully diluted with any increases in the number of stocks accounted for in the EPS figures, and due to this, the companies' actual earnings growth is higher than the indicated impact to the P/E ratios. The portfolio companies' compound annual growth rates (CAGR) for revenue and profit are at level of 25%.

The Ho Chi Minh Stock Exchange recently approved three new sub-indices co-designed with ETF fund management companies. New ETF funds will be launched later in the fall to match these indices. Two of the indices are composed of banking, insurance and brokerage companies that have underperformed the Vietnamese stock market and the third one can be described as an index of companies that have 'full FOL'. These ETFs are allowed to buy local stocks and may thus in the future hold a key role in the pricing of non-VN30-index stocks. The pricing of such stocks has, up to now, been problematic because the companies that have 'full FOL' trade at different prices off market, due to the full foreign ownership limit.

CURRENCIES AND FORWARD CONTRACTS

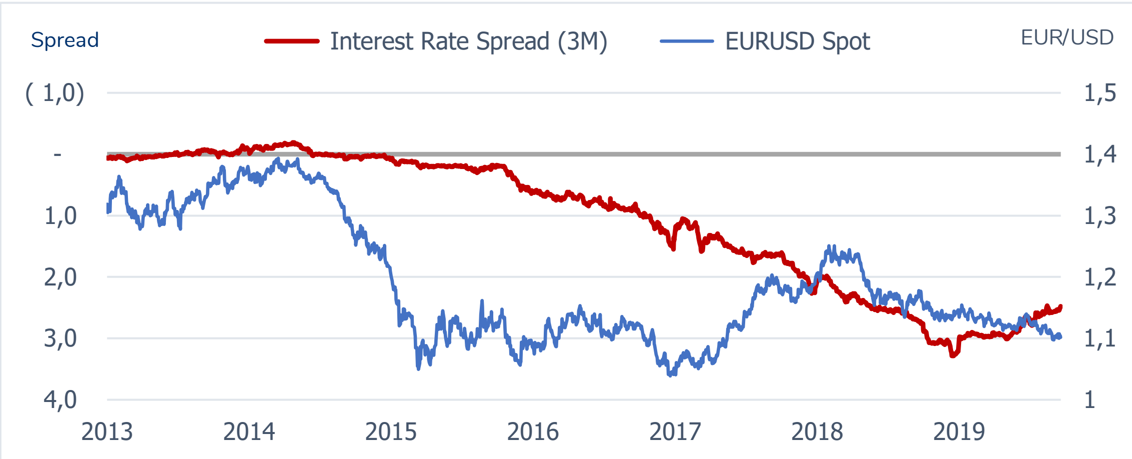
Vietnam's currency, the dong/USD rate, has remained very stable through 2019

Vietnam's central bank has had a tendency to allow the dong to devaluate at an annual rate of 1% to 3% to boost the country's competitiveness on export markets. Not so this time. Vietnam's currency reserves have accumulated, and the export industries do not appear to have any need for the dong to devaluate, as evidenced by the continued exports growth throughout the challenging year of 2019, even though the dong has been kept relatively strong. Several other ASEAN countries have seen their exports diminish this year.

We decided to lock in our gains from the period of weakened euro in the last ten years and hedge EUR-USD from this year onwards. This decision means that we give up any additional gains from the weakening euro, but it also excludes the risk from reverse movements in this currency pair from our portfolio. We have, in the short term, 'lost' additional returns due to the hedging, but it has acted as a balancing factor in the portfolio development. In other words, the changes in the value of the portfolio mainly come from stocks, even though the cost of hedging also leads to costs equaling the interest rate differential.

We will continue to hedge over the next few years. The last time the EUR/USD interest rate differential was net positive for the euro was in 2014; since then the differential has become considerable and the exchange rate has followed this development. This year the interest rate differential has started to narrow, and we believe that it will continue to narrow in the coming years, which should be followed by the EUR/USD currency rate. In our view, the new President of the ECB might be more willing than her predecessor to acknowledge the ineffectiveness of negative interest rates in generating growth, which would likely result for Europe to focus more on fiscal policies rather than monetary policy to stimulate growth. Negative interest rates do not, in our view, help to generate investments. Quite the contrary in fact; they have a negative impact on expectations and freeze out investments, due to the psychological effect of the interest rates. Bear in mind, that sudden changes for this currency pair may be catalyzed by many other factors as well. Fundamental reasons, such as European current account surpluses vs. US deficits, have garnered less attention recently.

EUR/USD Spread and Spot



Source: Bloomberg

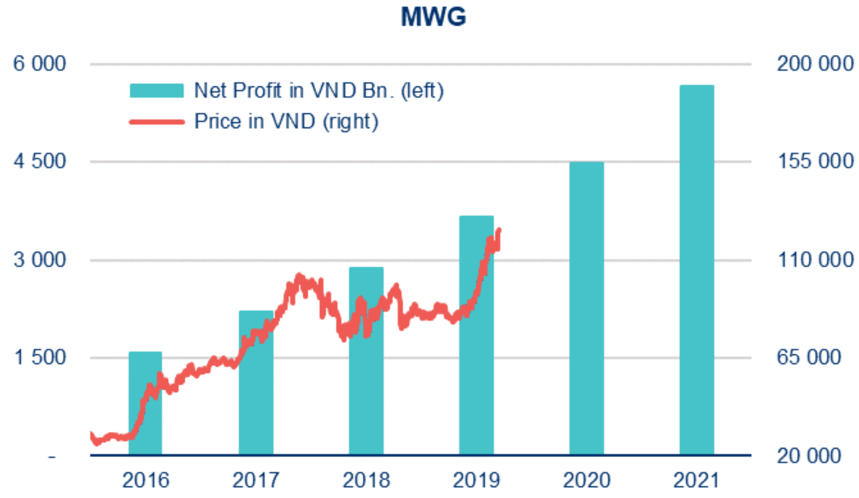
PYN Elite`s Top Holdings: 12 Companies

MWG – Mobile World Group (17.1% of the portfolio)

Vietnam's leading retailer. Three retail chains: mobile devices, household appliances and home electronics, and groceries. Strongest growth: BHX grocery chain and group's e-commerce site. The grocery chain has been finetuning its operating model into ideal shape, and its 900 outlets are just the beginning for further expansion. BHX's share of the group's revenue is likely to increase from 10% to around 50% in three years.

In terms of its revenue, MWG is already the fifth largest company in Vietnam's equity market. MWG has typically exceeded its annual profit targets, and this year will be no exception. Even though the results outcome has never been a disappointment, the performance of the company's stock hasn't been in harmony; it has included lengthy sluggish periods. For example, the stock traded sideways from the fall of the listing year 2014 to March 2016 for 18 months. Another lengthy period of sluggish valuation occurred from November 2017 to March 2019.

The periods of outperformance for the stock have been fairly short and brisk. In 2016, +120% over seven months, in 2017 +60% over seven months and from May to September 2019 +40%. The company's valuation still remains modest: the 2020 P/E stands at 13.5. The ongoing outperformance period for this stock may well become quite significant, taking into account the earlier breakouts in share price. The stock is valued at daily market price in PYN Elite's portfolio even though the `full FOL` shares get block traded at off market with premiums

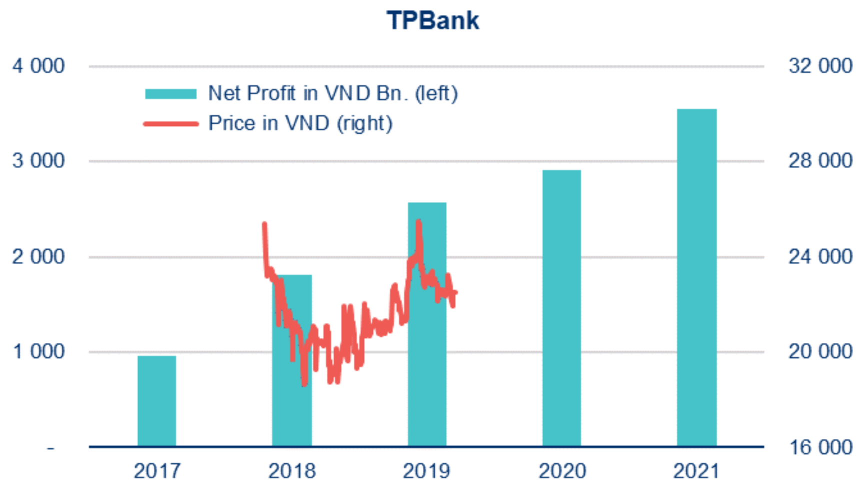


Source: PYN Fund Management, Bloomberg

TPB – TP Bank (10.4% of the portfolio)

A fairly small Vietnamese bank, a forerunner in digital services and holds a major market share in car financing. Entrepreneurial. Major shareholders include the Japanese Softbank and FPT (Vietnam's leading IT company). We have a 5% slice of TP Bank.

The net profit surged in 2018 and increases nicely in 2019 too, and the outlook is bright. It may also grow by acquiring a consumer finance company, which is under the central bank's supervision. We have small 10% unrealized profit in our TP bank position, but the stock has suffered from the general 18-month decline in the Vietnamese banking sector. The stock trades at a 6 to 7 P/E ratio and, like all stocks of this sector, has potential for a breakout.

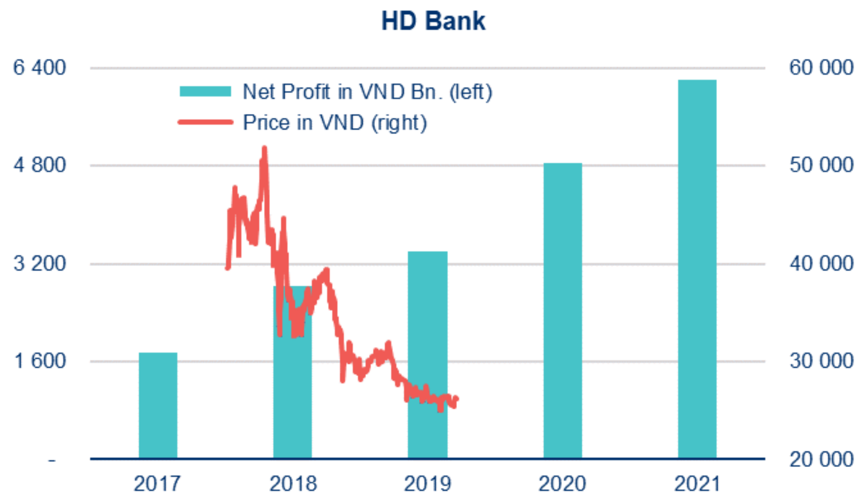


Source: PYN Fund Management, Bloomberg

HDB – HD Bank (9.5% of the portfolio)

HD Bank is a medium-sized Vietnamese commercial bank. The company is on a solid growth trajectory and has a highly qualified management. The company's merger with the government-owned PG Bank has been delayed but is likely to be finalized by the end of the year.

During the last couple of years newly listed banks TCB, VPB and HDB, got high valuations at the time of listing because of their excellent growth prospects for the years to come. Vietnam's central bank introduced some new controls for the growth of the consumer finance companies and banks during the last 12 months, which resulted in a major correction for these stocks. Now they are all too cheap considering the Vietnam's long-term annual loan growth prospect of 15%, the launch of new services and the growth potential in service fees.



Source: PYN Fund Management, Bloomberg

Our purchase price for the HD Bank shares is 33,000 dongs, and the shares currently trade at 26,000 dongs. We have accumulated more at recent levels and we are also considering one additional bank stock for our portfolio. HDB trades at P/E 7.5 and at P/E 6.5 for the next year. HD Bank will start purchasing its own shares during the next few weeks – the management thinks valuation is currently incorrect. We share their view of the valuation.

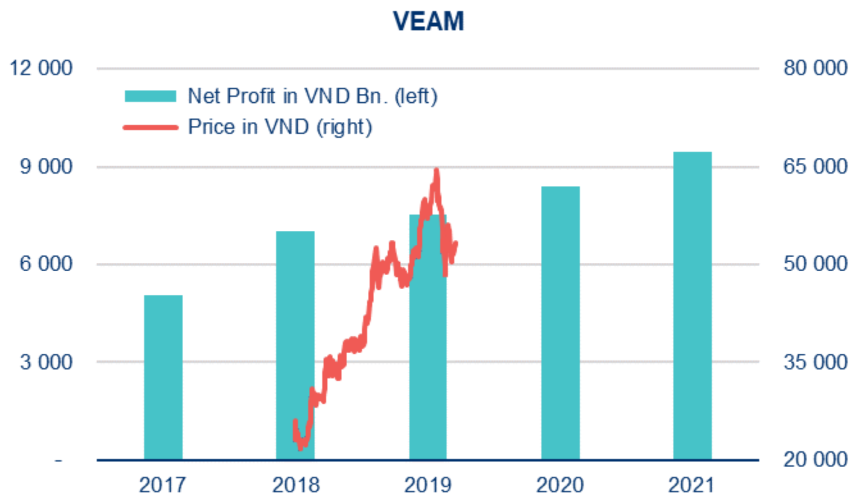
VEA – VEAM (8.7% of the portfolio)

VEAM is a listed holding company, with the government as the majority owner. The company's main business is the manufacturing of cars and motorbikes in joint ventures with Ford, Toyota and Honda. VEAM owns less than 50% of each of these three assembly plants and obtains its income from substantial annual cash dividend flows. The automobile plants are managed under strict control and guidance of the foreign brand company, and the plant managers are professional executives appointed by them. VEAM has had some tractor and light truck production of its own over the years. These undertakings have created some non-current inventories and a few write-offs linked to them are still uncompleted, but the problems are small compared to the company's cash flows.

VEAM's story as a listed company is less than a year old, and the company is likely to turn into a true blue chip, with healthy cash flows and no major capex pressures. VEAM pays high dividends to its shareholders.

The share trades for now on the Vietnamese OTC list, but the company will apply to be included in the main list in 2020. We have managed to accumulate VEAM shares well during this year.

The moped production cannot be expected to generate significant growth figures anymore, unless the Vietnamese government decides that the country will adopt electric mopeds at some point. The automobile penetration is still nearly non-existent in Vietnam, roughly 5%. Since another Vietnamese company started to assemble domestically branded cars this year, the government could introduce taxational measures to favor domestically produced cars over imported ones. Also, VEAM could probably benefit from this, even though the main focus of the government's will of course be to develop public transportation. P/E 8 and dividend yield 8.



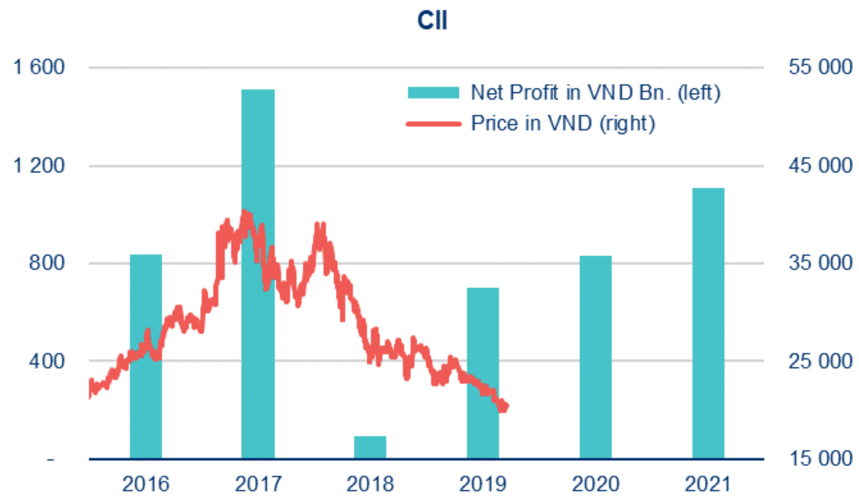
Source: PYN Fund Management, Bloomberg

CII – CII INFRASTRUCTURE (6.5% of the portfolio)

Infrastructure construction company with main focus on the Ho Chi Minh area. The company has a strong position in toll road projects, among other things, and it owns extensive land areas in HCMC.

The Thu Thiem area's land development projects and CII's road projects have become a problem; the company has interesting assets in both, but the realization of the values has been slowed down by the government's special investigation of its own agencies. Permitting processes and reviews of old agreements has been substantially slowed down over the last two years in the entire Vietnamese real estate sector. Due to this, 2018 was a lost year for CII and the share price fell significantly. This is not an ideal industry to be invested in, but CII is a good company and the share will rebound once things roll forward. This year they will make a decent profit and the P/E stands at 7.0.

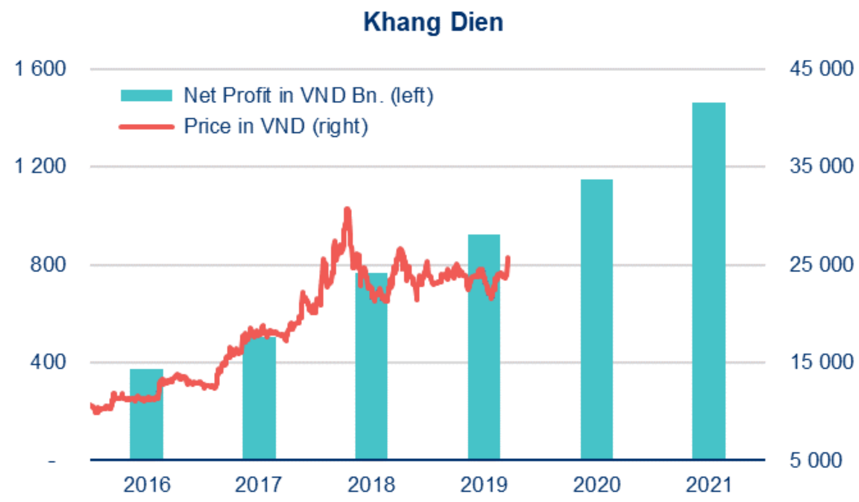
The baseline for a bigger push in all infrastructure and real estate businesses is around the turn of 2020–21, when Vietnam's central government is approaching a regime change and a new term of government. The CEO of CII has just bought three million shares of the company and filed a notification to purchase three million more shares in the coming weeks.



Source: PYN Fund Management, Bloomberg

KDH – Khang Dien (4.5% of the portfolio)

A housing developer, whose main projects and land holdings are located in attractive neighborhoods of Saigon. Demand for the homes is growing well thanks to continuing urbanization. Khang Dien is a valuable brand in the housing market. We are a long-time shareholder and the share has yielded returns for us. KDH took over a passive government-run real estate company with central land areas, and these assets will start to turn into housing projects under the leadership of KDH over the coming years. The company has received an extra boost from these projects for its outlook for the next few years, but in terms of our holding status the share is slowly reaching fair valuation levels. The 2020 P/E is 12.

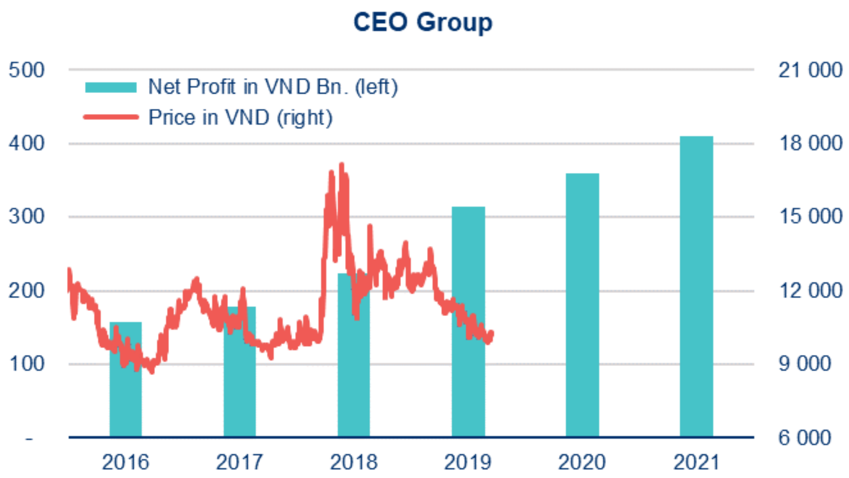


Source: PYN Fund Management, Bloomberg

CEO – CEO Group (3.4% of the portfolio)

CEO is an opportunistic real estate group, with its biggest investments located in tourist destinations on the Phu Quoc and Van Don islands. The tourist industry on Van Don has only taken active steps in recent years, and CEO has acquired a huge coastline estate from there. The land of CEO will be sliced up for several uses; CEO will develop some of it and some will be sold in smaller lots to others for further developments.

The problem of CEO Group stock has been the capital raising, which has diluted the earnings per share, even though the new capital has been wisely invested in undeveloped land, which will appreciate in value. According to our calculations, the company's current revised net asset value per share is 25,000 dongs, in other words 2.5 times the book value per share. The share trades at around 10,000 dongs, which roughly equals the purchase price we paid. We are willing to play a part in CEO's development even though the share price fluctuations are difficult to forecast, and the share movements so far have been disappointing. The share trades at a P/E ratio of 7 and P/B below 0.9.



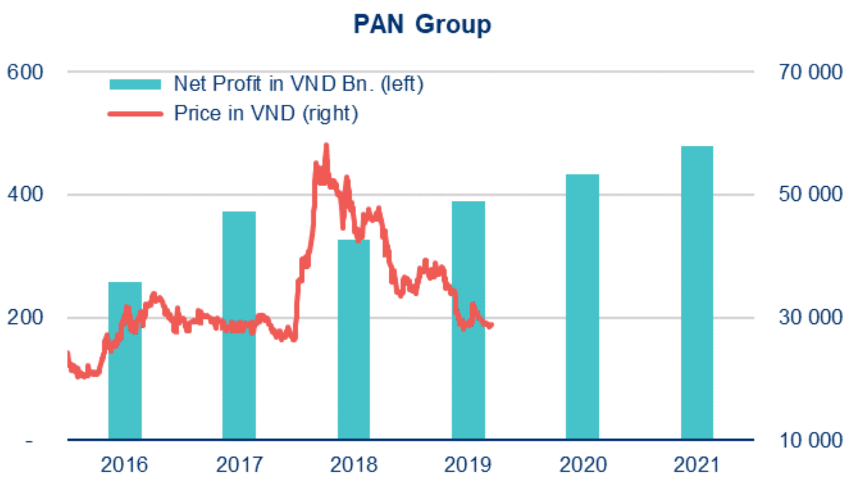
Source: PYN Fund Management, Bloomberg

PAN – PAN Group (3.1% of the portfolio)

The common denominator for the PAN Group's business is food, and its range of operation is wide: bakery industry, sowing seeds, nuts, fish filets. The company's main goal is to develop processed, packaged food products for consumers.

We got in this company at very early stage and our portfolio position contains a solid unrealized gain. The share went up nicely during the negotiations on a strategic partnership deal and we succeeded in selling off some of our shares during that period. After the share slid down again, we have been holding still our position.

The company recently succeeded in taking over the listed bakery company Bibica and otherwise also the outlook is fairly interesting. The company now trades at around P/E 11 to 12, which is not dirt cheap nor expensive.

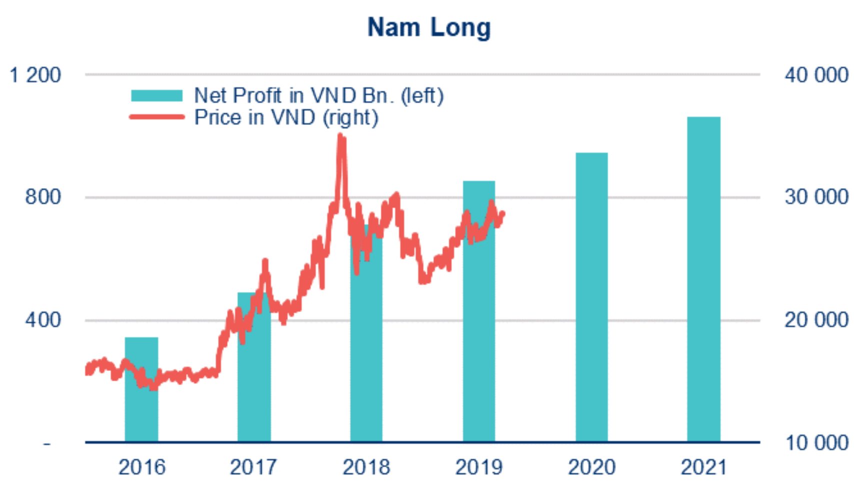


Source: PYN Fund Management, Bloomberg

NLG – Nam Long (3.1% of the portfolio)

Nam Long is a housing construction company based in Saigon and its brand is strongest in Vietnam's affordable housing market. The company has several ongoing projects of its own and joint projects with Japanese companies, who are co-owners in NLG`s single projects. NLG's biggest project, on the outskirts of Saigon, is called 'Waterpoint'. The Waterpoint had a soft launch during summer and pre-bookings were above expectations, and value of land in the area have also appreciated nicely. Waterpoint is a large area of land and it will provide the supply to sell for several years.

The NLG stock took a significant blow last year when the company made public its plan to raise share capital from local investors to manage their full FOL, in order to convert an outstanding bond. The plan was cancelled after the stock declined and the matter was solved otherwise. The stock has since started to recover, but it is still at a low valuation level and the recovery will take some time. The risk linked to the Waterpoint launch has dissipated and the stock has also for this reason substantial upside potential compared to the period when Waterpoint's successful launch was just a prospect. P/E 8.

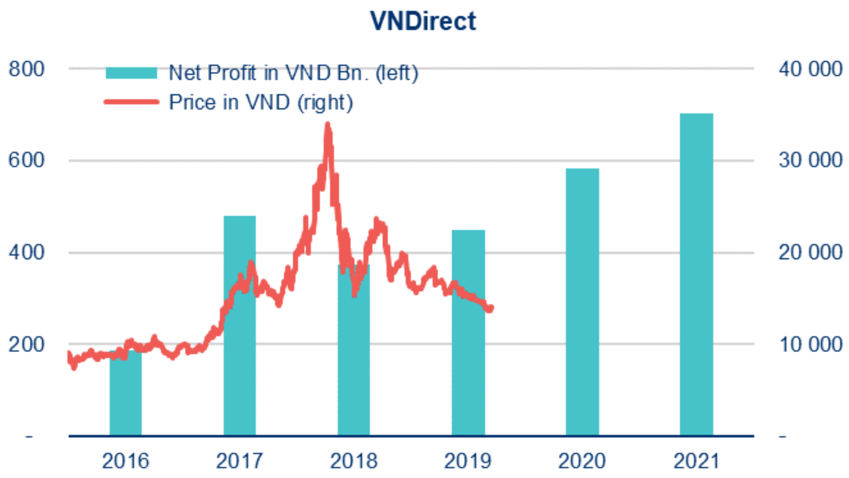


Source: PYN Fund Management, Bloomberg

VND – VNDirect (2.7% of the portfolio)

Vietnam's leading online broker. Last year, Korean industry players negotiated on a strategic entry, but the deal never got completed even though the company was valued attractively high from the main shareholder's point of view. The share price has since declined.

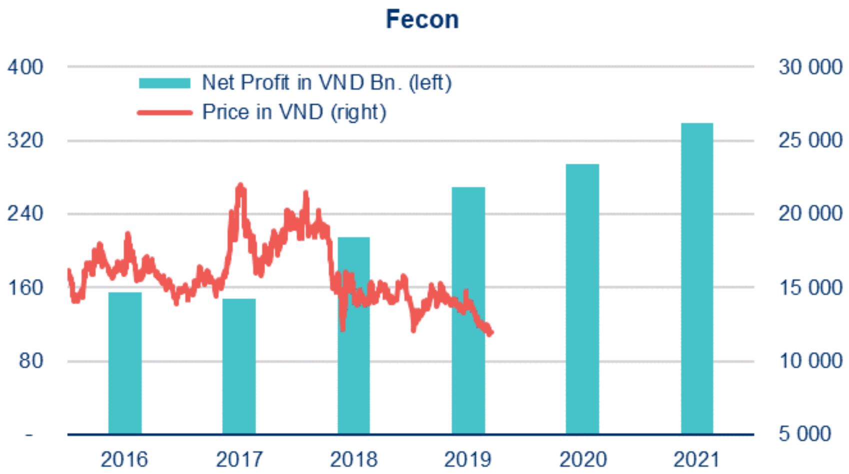
The brokers' floor price for commissions is no longer regulated, which means that competition is putting pressure to some of their revenue streams. At the same time, many companies, including VNDirect, are investing in the development of new products and new types of services. The volumes of the stock market will increase substantially once the market shift to a modern settling system and day trading is possible. This will especially benefit companies serving retail customers, such as VNDirect. The chairman of the board already took brisk measures last year to modernize the company. It remains to be seen if this brings some substantial results; so far, many new steps taken have scrambled the management. In our view this is a hold stock whose time will come once the banking and finance sectors take off again. For now, it is ridiculously cheap because the company is, after all, sufficiently profitable, despite ongoing challenges. P/E 6.5.



Source: PYN Fund Management, Bloomberg

FCN – FECON (2.2% of the portfolio)

A construction company specialized in infrastructure and domiciled in Hanoi. The company is doing well but the share price doesn't reflect this. P/E 5 and there is potential for the stock price to perform in the next few years. The industry has generally been plagued by a slow-down of permitting due to the central government's operation to eliminate corruption in public construction projects. Fecon's key customers are private companies, it also works as a sub-contractor for private construction companies in government projects.



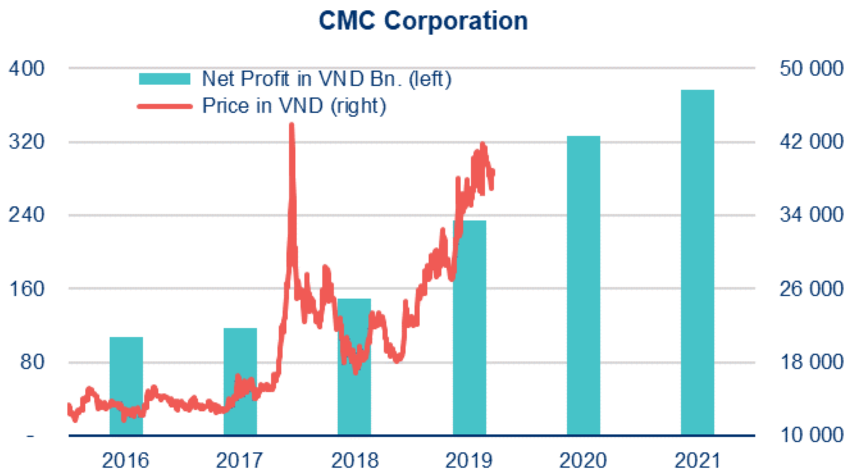
Source: PYN Fund Management, Bloomberg

CMG – CMC CORPORATION (1.7% of the portfolio)

An IT firm with a clear strategy, focusing on IT applications in the domestic market, particularly in the finance and banking sector. CMG is growing its IT outsourcing service business targeted at foreign markets, selling the work of Vietnamese IT engineers to key customers abroad.

Samsung is a long-term customer of CMG's outsourcing business. CMG made a strategic deal early in the fall, accepting Samsung as a shareholder in a Private placement (30% holding). Samsung would have desired even more, but the holding was capped at this level for the next few years by mutual agreement. Samsung will use substantially more CMG services, which will give CMG a bigger role in Samsung's Asian IT operations.

CMG also has interesting venture capital activities with small Vietnamese IT start-ups. The share has gone up nicely, thanks to the placement to Samsung.



Source: PYN Fund Management, Bloomberg

In our view, the company's prospects for the next five years appear very interesting. The recent outperformance may be followed by consolidation, but for future plenty more upside for the stock. Our holding is 5% and we are among the top five shareholders. P/E 16, and P/E 12 for the next year.

IN CONCLUSION

Our portfolio is positioned interestingly. Our aim is to still maximize returns over the next few years through focused company allocations, but with considered risk taking. In practice it means that we have kept in the portfolio stocks with good return potential, while at the same time we have paid particular attention to the quality of the investments in terms of operation policies, size and liquidity of the company. Over the last year, this policy has meant that we took profits from the HBC Construction Company and significantly increased VEA, the holding company of motorbike and car plants. Around the turn of last year, we also took profits from another construction company, VCG, because two investors were battling for controlling stake and we got a relatively good price for our shares, compared to our cost. We have had to reluctantly sell some of our MWG shares due to the soaring share price, as our rules determine the maximum weighting 20% of the portfolio. These transactions were made at off-market premium prices, around 20% higher than the market price on the stock exchange.

Vietnam is a pleasant country to visit and invest in, and its good time to hop in now; later on, tourist volumes and investment flows may face multiplication.

Next subscription deadline 31.10.2019.

PYN ELITE

Petri Deryng

Portfolio Manager

ATTACHMENT: PYN Elite's top holdings on 15 October 2019

Top Holdings

Company	2018	2019E	20EE	PYN Elite upside (E)
MWG: Mobile World 17.1% (125 500)				
Revenue	86 516	108 520	180 000	
Earnings	2 879	3 658	5 500	
Market Cap	37 445	55 563*	100 000	80 %
Equity	8 977	10 142	22 000	
TPB: TP Bank 10.4% (22 400)				
Revenue	4 378	5 418	10 000	
Earnings	1 805	2 571	3 800	
Market Cap	16 969	18 515*	45 000	143 %
Equity	10 622	11 747	20 000	
HDB: HD Bank 9.5% (28 300)				
Revenue	7 646	9 731	18 000	
Earnings	2 842	3 400	5 800	
Market Cap	29 724	27 762*	80 000	188 %
Equity	15 635	19 035	30 000	
VEA: VEAM 8.7% (53 700)				
Revenue	7 070	6 720	11 000	
Earnings	7 010	7 336	10 500	
Market Cap	51 823	71 357*	120 000	68 %
Equity	24 641	27 414	40 000	
CII: HCMC Infrastructure 6.5% (24 500)				
Revenue	2 686	2 846	5 000	
Earnings	95	691	1 000	
Market Cap	6 436	6 072*	12 000	98 %
Equity	4 988	5 485	7 000	
KDH: Khang Dien 4.5% (25 450)				
Revenue	2 917	3 475	7 000	
Earnings	808	924	1 200	
Market Cap	13 663	13 856*	18 000	30 %
Equity	6 867	7 895	10 000	

Company	2018	2019E	20EE	PYN Elite upside (E)
CEO: CEO Group 3.4% (9 500)				
Revenue	2 246	3 200	8 000	
Earnings	223	315	700	
Market Cap	1 976	2 445*	8 000	227 %
Equity	1 891	3 148	6 000	
PAN: PAN Group 3.1% (29 000)				
Revenue	7 829	12 016	16 000	
Earnings	327	389	600	
Market Cap	5 916	4 931*	10 000	103 %
Equity	3 690	4 200	6 000	
NLG: Nam Long 3.1 % (28 850)				
Revenue	3 480	3 485	8 000	
Earnings	713	855	900	
Market Cap	6 170	7 204*	14 000	94 %
Equity	4 600	5 900	8 000	
VND: VNDirect 2.7% (13 800)				
Revenue	1 538	1 721	3 000	
Earnings	373	449	800	
Market Cap	3 420	2 878*	12 000	317 %
Equity	2 983	3 500	5 000	
FCN: Fecon 2.2% (12 350)				
Revenue	2 846	3 860	7 000	
Earnings	215	270	480	
Market Cap	1 406	1 476*	4 000	171 %
Equity	1 804	1 870	3 000	
CMG: CMC Corporation 1.7% (37 850)				
Revenue	5 186	6 609	12 000	
Earnings	159	234	420	
Market Cap	2 162	3 785*	8 000	111 %
Equity	1 058	1 900	3 000	

Top holdings per 15 October 2019. Company figures in bn. VND
20EE: Shows our target market cap, revenue, profits and equity within the next three years
* MCap on 15 October 2019