

THE VN-INDEX TICKING UP

The VN-Index has risen by 15% since the start of the year and is now at 1,300 points. According to brokers consensus forecasts, the index is projected to reach to 1,400–1,500 points during the remainder of the year. We share the positive views based on earnings growth, but we believe the index may rally even higher this year. In addition to strong earnings growth, other factors can also boost the sentiment among local investors as the year progresses and even lead to a vigorous momentum at the stock market. Expectations of the upcoming US interest rate cuts would ease the depreciative pressures on the Vietnamese dong, which have had a negative impact on the Vietnamese stock market. The new KRX trading system of the Vietnamese stock exchange will eventually be deployed this year. The prefunding practice for foreign institutional investors may be lifted as soon as next fall. We also expect interest rates in Vietnam to remain very moderate, which will accelerate economic growth.

The VN-Index can reach 1,700 points by the end of 2024



Source: Bloomberg, PYN Fund Management

PYN Elite portfolio

Ticker	Company	Business	% of portfolio
STB	Sacom Bank	Commercial bank	16.5%
ACV	Airports Corporation	Airport	10.0%
MBB	MB Bank	Commercial bank	8.1%
HDB	HD Bank	Commercial bank	7.0%
CTG	Vietin Bank	Commercial bank	6.5%
TPB	Thien Phong Bank	Commercial bank	6.0%
FPT	FPT Corporation	Technology	5.0%
DNSE	DNSE Corporation	Technology / trading platform	4.7%
CMG	CMC Corporation	Technology	3.3%
SHS	Saigon-Hanoi Securities	Broker	3.3%
OCB	Orient Commercial Bank	Commercial bank	3.2%
VHC	Vinh Hoan	Fish products	3.2%
DBC	Dabaco Group	Pork meat and vaccines	3.0%
HVN	Vietnam Airlines	Airline	2.7%
PNJ	Phu Nhuan jewelry	Jewelry retail chain	2.3%
ASM	Sao Mai Group	Fish products and real estates	2.0%

Source: PYN Fund Management

PYN ELITE'S BIGGEST BET

Historically, Sacombank has been an operationally well-managed bank with services highly valued by its customers. During Vietnam's financial crisis (2009–2012), the valuations of all listed banks fell to very low levels. For Sacombank, the most fateful event took place in the years immediately following the crisis. Entrepreneur and banker Mr. Tram Be and his family had previously become the biggest shareholder of the small and ill-reputed Southern Commercial Joint Stock Bank, with a stake of approximately 21%. While at the helm of Southern Bank, Tram Be took risks and increased the size of the bank's high-risk loan portfolio. Southern Bank's balance sheet in total was approximately one-third of the balance sheet total of Sacombank (Sai Gon Thuong Tin Commercial JS Bank). Tram Be abused his position in Southern Bank and used various sources to finance the takeover of Sacombank, a large and reputable commercial bank. Through stock purchases, Tram Be eventually became the largest owner of Sacombank with 6.6% of the shares. Following battles with other shareholders, he was able to carry out a bank merger in which Southern Bank was merged into Sacombank. As a result, all of Southern's liabilities were transferred to Sacombank, and Tram Be acquired a significant ownership in Sacombank through a share swap.

Tram Be was later sentenced to prison for his actions, his bank holdings were seized, and the State Bank of Vietnam froze Tram Be's 32.5% shareholding in Sacombank. In the state-led rehabilitation plan for Sacombank, Tram Be's assets were ordered to be used to compensate for the damages he caused to Southern Bank and Sacombank. The total amount of the receivables related to stock

purchases was VND 20 trillion, approximately 720 million euros. Over the past decade, the well-managed Sacombank has had to gradually write off these receivables of VND 20 trillion dong, along with many other doubtful receivables acquired in connection with the Southern Bank merger. Some 64% of Sacombank's earnings during the period 2018—2022 went into VAMC-related provisions and provisions for old liabilities following the arrangement agreed upon with the central bank.

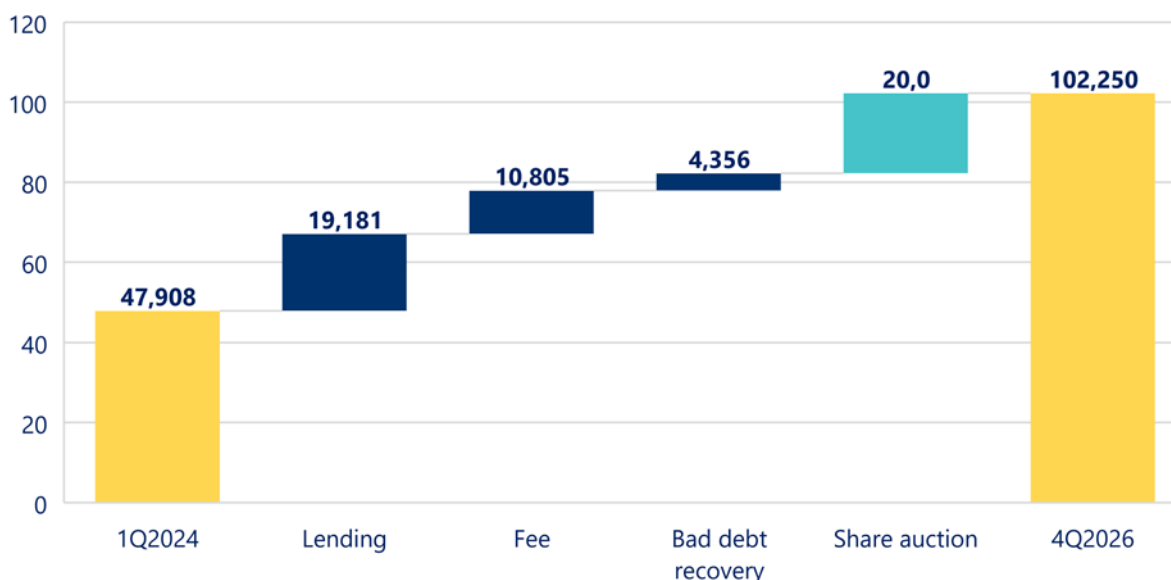
Tram Be still owns the shares corresponding to his 32.5% stake, but the State Bank of Vietnam has control over the shares. Sacombank's rehabilitation plan has been completed, and new owners are being sought for Tram Be's 32.5% shareholding through tender negotiations and an auction. When the shares have been successfully auctioned off, we expect that Sacombank will be able to recognise nearly the entire receivable of VND 20 trillion in its equity. Sacombank's equity currently amounts to VND 48 trillion, which means that an increase of VND 20 trillion would significantly increase the bank's balance sheet value.

As the shares are owned by Tram Be and controlled by the central bank, it has been difficult for investors to grasp the share auctions' significance to Sacombank. In addition to the returns from the auctions, Sacombank's NIM and ROE will also be boosted by the bank no longer having to carry on with provisions for Southern Bank's credit losses.

The chart below shows our projection of how Sacombank's equity could increase during the period 2024—2026.

STB – book value to double in three years – the stock must react!

VND trillion



Source: Bloomberg, PYN Fund Management

Sacombank (STB) is overweight in the PYN Elite portfolio with a share of 16%. STB was added to the portfolio as a new holding in November 2022, which means that the fund has now owned STB for about 1.5 years. The stock has already performed well, but we expect its most remarkable rerating to take place between 2024 and 2026. The stock is currently trading at VND 31,000, which is 1.2x the

current book value. The stocks of vietnamese banks with robust earnings growth, have historically achieved valuations above 2.0x their book value during bull markets.

As our table shows, a simple calculation of the financial consequences of the special events involving Sacombank during the period 2024–2026 could bolster the company’s equity to VND 102 trillion from the current level of VND 48 trillion. This would put the P/B ratio at 0.56 at the current share price. A cautious target for the fair value of the share is 1.5x book value by 2026, in which case the per-share figures could look as follows:

Equity per share	52,000 VND
Share price, fair value P/B 1.5x	78,000 VND

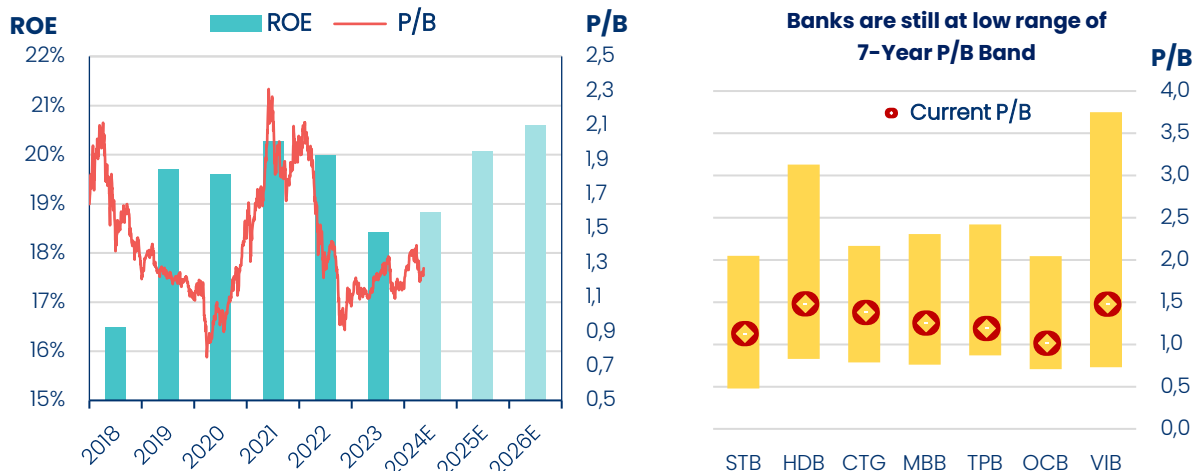
Sacombank could even reach a valuation as high as 1.8-2.0X within the next few years, in which case the share price could rise to VND 90,000–100,000.

OTHER BANKS

The other banking stocks in the portfolio are also attractively priced and the banks’ earnings and profitability are trending upwards. Banking stocks currently have a weight of 48% in the PYN Elite portfolio, which means that they are still overweighted. The banking stocks' weight in the portfolio has decreased slightly, which is mainly due to the performance of the other stocks in the portfolio. The tech stocks FPT and CMG and the airport operator ACV have rallied during the spring.

Among the banks, we have changed the allocations somewhat and recently increased the weights of MBB and OCB in particular. MBB announced weak earnings for Q1, but that was largely due to technical booking practices concerning receivables associated with individual customers. However, the customers in question have not had overdue payments to MBB, and we expect these customers' loans with other banks to be resolved through refinancing measures, which would eliminate the need for MBB to make provisions going forward. As a smaller bank, OCB has remained at a very low valuation. In May, OCB appointed Mr. Pham Hong Hai as its new CEO. He is a respected executive in the industry, having previously served as the CEO of foreign HSBC Bank Vietnam. Mr. Hai seems to be highly motivated in his new role, and increasing the value of the bank is undoubtedly one of the key objectives of his employment contract. He has a long history with the Chairman of OCB's Board of Directors, and we expect his contribution to be a key importance to the bank’s development in the coming years.

The banking stocks in the PYN Elite portfolio are very attractively priced

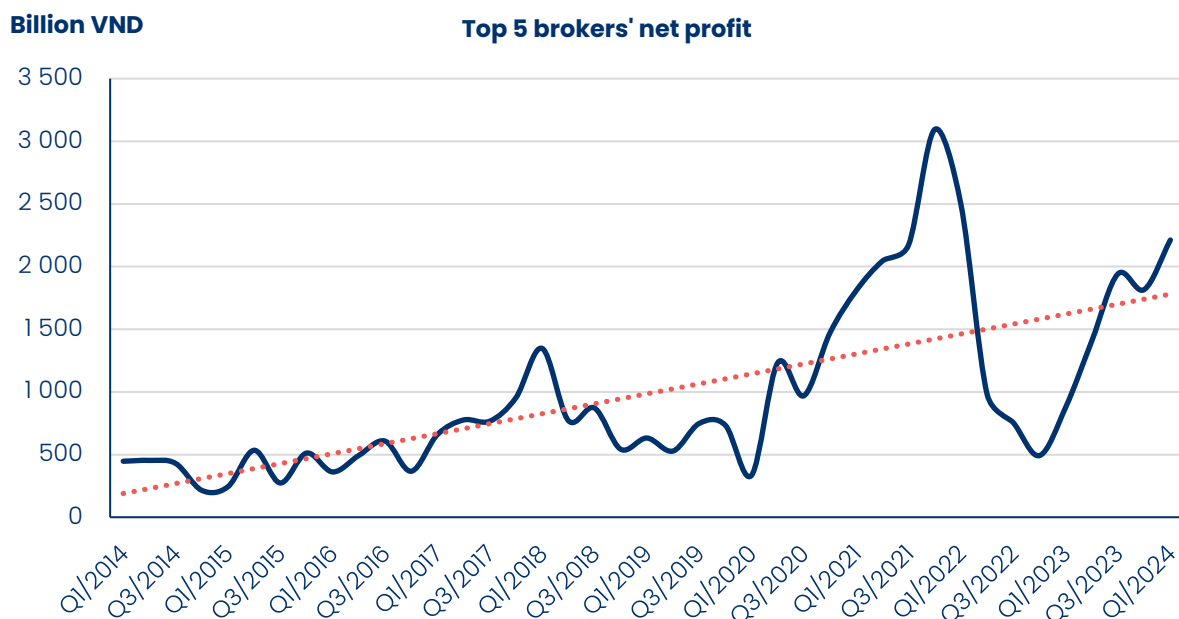


Source: Bloomberg, PYN Fund Management

HIGH BETA

We have also taken a position on brokerage firms due to the launch of the stock exchange's new trading system, KRX. Their earnings shoot up in bull markets and fall sharply in bear markets. The brokerage companies SHS, TCI and VND now have a combined weight of approximately 5% in the portfolio. In addition, DNSE has a weight of about 4.8% of the portfolio. DNSE is a tech company that will be listed on the stock exchange in the coming weeks. Its main product is a new customer-friendly trading platform.

Broker earnings fluctuate. Good stocks for bull market.



Source: Bloomberg

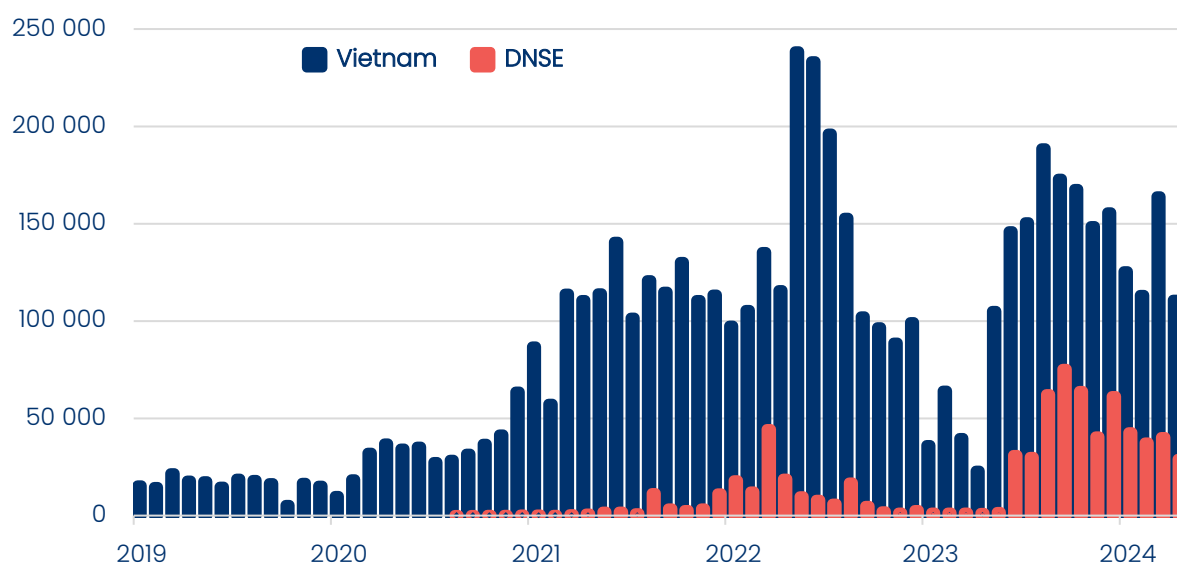
THE MODERN TRADING PLATFORM OF THE TECH COMPANY DNSE

Last fall, we took decisive action and acquired a 11% stake in DNSE. We had known the company's key executives for a long time and we believed in their ability to create a technically unique, customer-friendly and cost-effective platform for stock trading. The platform created by the company has been in use for a couple of years, and DNSE has already been profitable this time. In the coming years, the company aims for strong growth and seeks new levels in customer volumes.

DNSE carried out a successful IPO in January 2024 and we have already recognised the corresponding returns on our investment. In the coming weeks, the focus will be on the debut of the stock trading at the market. It is unlikely that PYN Elite will hold brokerage companies for long, but DNSE is a long-term hold for us. The company's growth story is very promising, and it will be interesting to see how quickly DNSE will be able to gain market share over the next few years. This year, the company has gotten approximately one-third of all new brokerage accounts opened in Vietnam.

DNSE – getting big share of new account openings

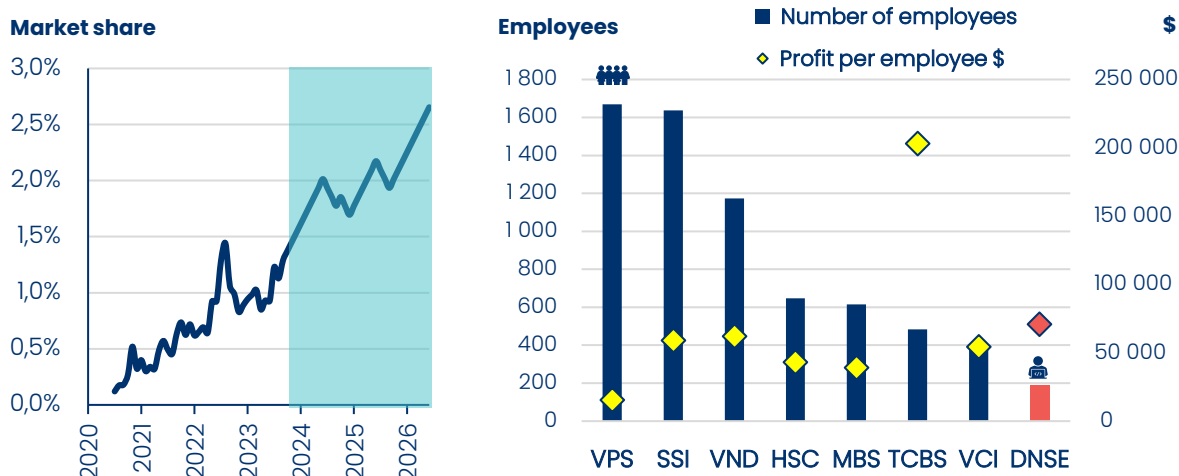
Accounts



Source: VSD, DNSE

DNSE's short-term goal is to achieve a market share of 3%. In the slightly longer term, even a market share of 5% is possible. We expect the trading volume of the Vietnamese stock exchange to continue to grow at the same time, which means that DNSE's growth will be driven by increased market share as well as the growth of the market.

DNSE – gaining market share and being very cost efficient



Source: DNSE, PYN Fund Management

ACV – THE RUNWAY IS HOT

The airport operator ACV has turned up the heat on its runways and its share price has rallied strongly during the early part of the year. During the Covid-crisis, we took a significant position in ACV through a block trade, and finally this position has started to perform. ACV is currently constructing an additional terminal at Saigon's Tan Son Nhat Airport and the new Long Thanh Airport, also in Saigon. Both projects will be completed on schedule or even a little faster than planned. Passenger volumes in air traffic are growing rapidly, and ACV is set to achieve good earnings growth in 2024 and 2025. The airport business is like printing money: strong cash flow and high profitability are typical of the industry. ACV's operating margin will remain easily above 60%.

Long Thanh – The new airport in Saigon



Source: Government News

VIETNAM AIRLINES – TAKING OFF

We quickly accumulated a position in Vietnam Airlines in May. We now own approximately 1% of the company, which corresponds to roughly 3% of our portfolio. Vietnam Airlines has accumulated losses over the past few years, but a strong turnaround in earnings is expected this year. The first months of the year were profitable by a clear margin. Due to several years of operating at a loss, the company's P/S ratio has fallen to a very low level. We believe that the company's principal owner, the Vietnamese government, will put pressure on Vietnam Airlines' management to primarily use its earnings to cover the accumulated losses, rather than the state injecting new share capital, as was the case with the Finnish state-owned airline Finnair. This means that the dilution of the shares would be very minimal and the company's earnings in 2024–2026 may come as a positive surprise to the market.

Vietnam Airlines – an attractive P/S ratio

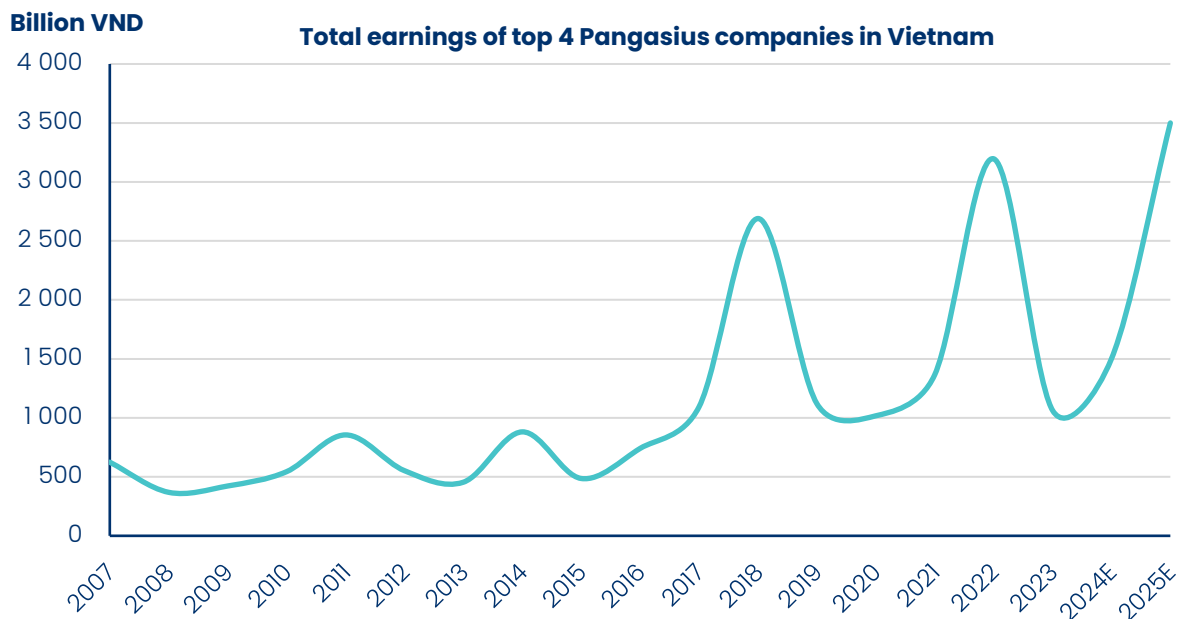


Source: Bloomberg

FISH PRODUCTS

Vietnam is a major producer of fish products, and VHC (Vinh Hoan) is the largest company in the sector in Vietnam. The price and production cycle of pangasius fillets quite clearly bottomed out last year, which is why we added VHC and ASM as new holdings to our portfolio in late 2023. Export companies have fixed prices set 6–12 months ahead for their large international customers, which means that there is a delay before the turnaround in the price cycle is reflected in their earnings.

Pangasius fish is in a good cycle



Source: FiinPro

Vinh Hoan is a blue-chip listed company. It has interesting production lines for the further processing of fish products and the production of fish by-products. The company utilises every part of the fish, and by-products for the cosmetics and pharmaceutical industries are seeing strong growth.

VHC: fish for dim sum and collagen for the pharmaceutical and wellness industries

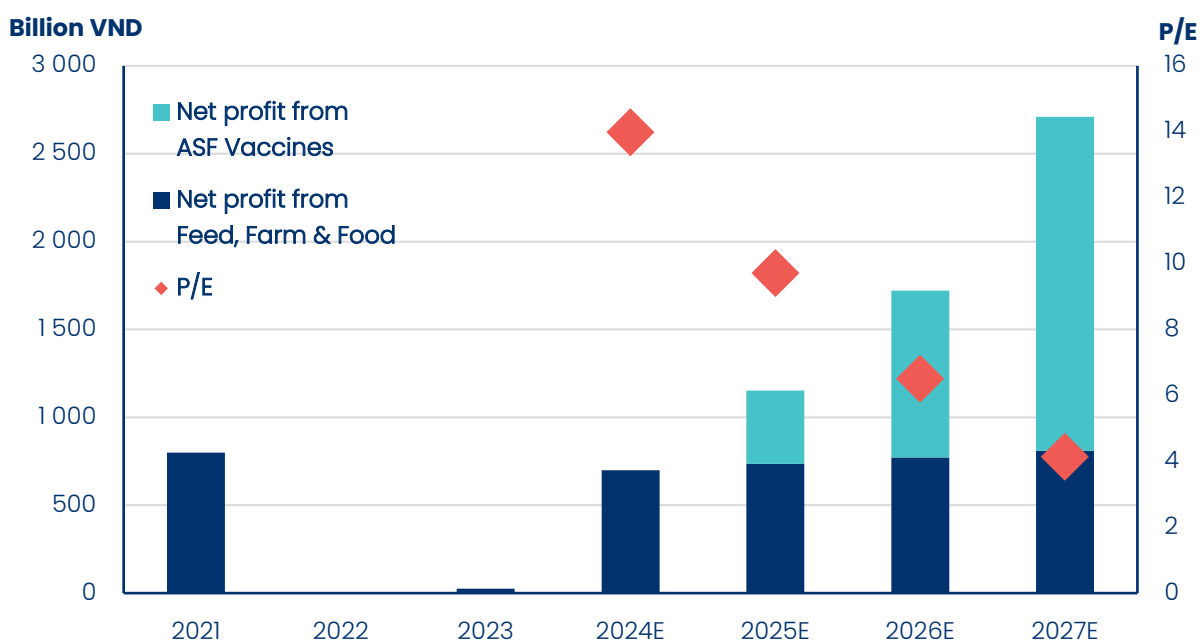


Source: Vinh Hoan Corporation

WE BOUGHT SHARES IN A PIG FARMER BUT WILL EVENTUALLY TAKE PROFITS FROM THE SHARES OF A PHARMACEUTICAL COMPANY.

At the current hog prices, companies in the industry are set to deliver strong earnings in 2024, but that was not the most significant reason behind our decision to buy stock of the pork producer Dabaco. Over the past couple of years, DBC has actively developed new business in African swine fever vaccines. The company’s R&D department has developed a vaccine that has been successfully tested on a large number of pigs. The company's vaccine production plant will be completed in the near future, and vaccines will be sold in both the domestic and export markets. Pork is an important food product in Asia, and fighting ASF is important for food companies. They are prepared to pay a high price for a vaccine that provides 100% protection against swine fever. Our investment in Dabaco makes sense in the short term due to positive trend of the hog prices, but we believe that investors do not yet fully understand the significance of launching the vaccine production plant, and it is also not yet sufficiently reflected in the forecasts of analysts.

DBC: Turnaround in earnings and growth derived from African swine fever (ASF) vaccines



**ASF Vaccines
Manufacturing Facility**

- ◆ 97% completed
- ◆ 200 million doses / year capacity
- ◆ Est. efficacy close to 100%

Source: Dabaco Group, PYN Fund Management

We are excited about the ideas behind our portfolio. Stock prices performance has varied a lot individually during the spring, providing opportunities for buying and selling within the portfolio in particular. We have high expectations for the remainder of the year. We are confident in the potential of the Vietnamese stock market and our portfolio to deliver positive surprises.

Have a great summer!

The next PYN Elite subscription day will be on June 28, 2024.

PYN ELITE
Petri Deryng
Portfolio Manager

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