



Monthly Report

Unit Price: USD 94.37

TIM Vietnam Actively Managed Certificate – Factsheet

31 Oct 2017

Vietnam's Update - Economy

October key macroeconomic indicators continued to be positive:

- The trade balance is estimated to have reached a surplus of \$0.9bn in October, bringing the 10M trade surplus to \$1.2bn. This is a clear turnaround from the deficit in H1, helped by the significant deceleration of machinery imports, which only increased by 3% yoy in the last 4-month period versus an increase of 37.2% in H1/2017. 10M exports rose to \$173 bn, +20.7% yoy. Of note, electronics and mobiles surged by 32% yoy, accounting for one third of the total export value.
- The index of industrial production accelerated its uptrend to 17%, led by a 22% increase of the manufacturing sub-sector index. Mining stopped to contract for the first time since December 2015.
- The CPI went up 2.98% yoy. On a mom basis, the increase of 0.41% has decelerated from the Aug-Sep period. The key index drivers back then, healthcare services and educational services, have normalized as they rose just 2.14% mom and 0.19% mom respectively.

While most macroeconomic indicators present a bright picture, credit risk seems to be mounting. Last week, we met with representatives from various banks to get an update on the current situation in the financial industry. All banks that we talked to have had high loan growth this year with consumer finance loans as the key driver. The institutions benefited from the fact that the State Bank of Vietnam (SBV) lifted their credit growth limits by a sizable extent (for example from 16% to now 20%). The PM has recently urged the SBV to lower lending rates in order to boost business activities. Given the still overhanging problem of old non-performing loans, aggressive loan growth should be watched carefully.

On the international front, Vietnam has been hosting all APEC (Asia-Pacific Economic Cooperation) meetings this year. These meetings will be concluded with the Leaders meeting on 11 and 12 Nov 2017. U.S. President Donald Trump, Russia's President Vladimir Putin, together with other world leaders, will be present. Some of the most important global trade deals and trade issues will be discussed around this time, either in Vietnam during or outside of the APEC meetings, or elsewhere. There is the Bogor Goals (APEC's own trade deal including 21 members), the Tran-Pacific Partnership (TPP) of the 11 APEC countries, and the Regional Comprehensive Economic Partnership (RCEP) between ASEAN (10 countries) and 6 other countries (Australia, China, India, Korea, New Zealand, Japan), with which Foreign Trade Agreements (FTAs) are already established. Given China's rising influence and its ambition to become a regional superpower, there is a strong interest from other developed countries such as Japan or Korea that the U.S. will come back to the TPP renegotiation table. If either TPP or RCEP is passed, Vietnam as a smaller, albeit strategically located country in each trade group, is likely to benefit.

Vietnam's update - Financial Market

The VN-Index, which is a total-return full-market cap index for all the 340 listed stocks on the Ho Chi Minh Stock Exchange (HSX), increased by 4.2%. But the market's upturn was not broad-based. The following stocks and sectors accounted for 83% of the total performance of the VN-Index: Faros Construction – ROS (+83%, 2.9% weight); Sabeco – SAB (+8%, 8.3% weight); and the banks (+12%, 24.0% weight). Of note, both ROS and SAB are trading at remarkably high trailing P/Es of 229.5x and 39.8x respectively. Within the VN-Index, there were only 100 advancers vs. 240 stocks either declining or remaining unchanged. The 3-bourse combined daily trading volume averaged \$ 224mn, slightly higher than in Sep. Foreign investors purchased a net of \$16.3mn worth of equities during the month. But if we exclude the Vinamilk (VNM) purchase by foreign investors (there is still a pending registration of the largest current foreign shareholder, F&N), then the net foreign transaction amount is negative at \$186mn.

While the general public seems to get excited about the bank IPOs, we do not share the enthusiasm. Firstly, the health of Vietnam's banking sector is generally still fragile: the problem with the old non-performing loans (NPLs) is still not solved and most banks are under-capitalized if they are to apply Basel 2 (which has been delayed till 2020 to buy more time). Meanwhile, the current growth drivers (interest-rate differential products in general, and consumer finance loans in specific) are not sustainable in our view. The current valuation of the bank IPOs (P/B is north of 2.0x) is considerably higher than the valuation of the regional banks (P/B of 1.4x).

Certificate Facts

Type	Open-end Dynamic Tracker - Certificate
Currency	US Dollar
Min. Investment	USD 100
Mgmt-/ Admin Fee	1.0% / 0.5%
Performance Fee	10% with High Water Mark (HWM)
ISIN	CH0374214515
Issuer	Neue Helvetische Bank AG
Inception	14 July 2017
Reference Index	FTSE Vietnam Index
Strategy Manager	Turicum Investment Management AG
Market Maker	Issuer with 1.0% spread
Clearing Institution/ Clearing Code	SIX SIS AG/ CH116589

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Top 5 holdings

Ticker	Company Name	% Portf
DHC	Dong Hai Ben Tre JSC	11.09%
VSC	Viconship JSC	9.68%
DRC	Da Nang Rubber JSC	9.62%
BMP	Binh Minh Plastics JSC	7.56%
TDH	Thu Duc Housing Devel. Corp.	6.97%

Performance (*) Since inception 14 July 2017

2017	Jul	Aug	Sep	Oct	Nov	Dec	YTD
TIM VN Certificate	0.3%	-2.6%	1.4%	-4.7%			-5.6%
FTSE VN TR	-0.2%	3.1%	2.8%	4.9%			11.0%
VN Index TR	1.1%	0.3%	3.2%	4.2%			9.0%

All in USD	1 month	3 months	6 months	2017 Ytd	Since inception
TIM VN Certificate	-4.7%	-5.9%		-5.6%	-5.6%
FTSE VN TR	4.9%	11.3%		11.0%	11.0%
VN Index TR	4.2%	7.8%		9.0%	9.0%



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Part of the valuation differential is that the consumer finance arm should be valued separately from its parent rather than on a consolidated basis given its much higher risk/ profitability.

We believe that the current situation, where some investors are switching out of “old-boring” stocks into new hot stocks, is offering a special window for long-term investors to pick up fundamentally strong stocks at undemanding valuations.

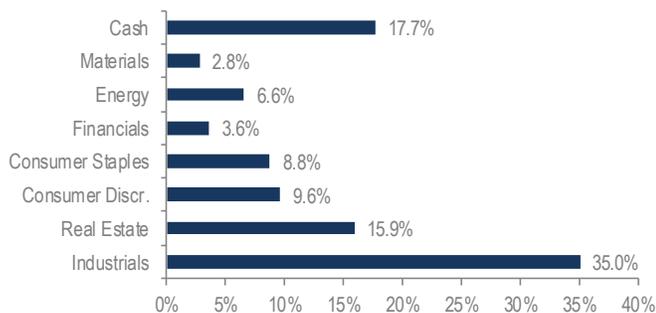
Fund Activities

The portfolio declined by 4.7% in October. The reference, the FTSE Vietnam Index, went up by 4.9%. The underperformance was due to the fact that the portfolio did not invest in highly volatile stocks such as ROS and underweight bank stocks. As stated earlier, we view that the bank stocks have run well ahead of their fundamentals. Largely contributing to the negative performance were Da Nang Rubber (DRC, -14%), and Thu Duc Housing Development (TDH, -13%). DRC has declined by 36% ytd due to the company’s poor business performance in 9M/2017, which was negatively impacted by volatile rubber prices and falling sales volume of bias tires to auto assemblers. The adverse impact of higher rubber prices is now over, and it is highly probable that sales volume of bias tires will recover thanks to generally solid truck demand in Vietnam. TDH on the other hand experienced regular business activities with its projects being sold well thanks to their affordability and locations in the populous districts of Ho Chi Minh City. Both stocks came under pressure as some investors swapped out of them in order to go into hot new IPOs: DRC’s foreign ownership was reduced by a quarter from the beginning of the year to 24.6% currently; TDH’s foreign room rose to ~2% from 0% in early September as foreign investors trimmed positions. At the close on 31 Oct, DRC trades at a 2017F EV/EBITDA of 5.7x and TDH trades at a P/B of 0.65x. We have BUY recommendations on both stocks.

During the month, the portfolio exercised its rights (5 existing shares are able to purchase 1 additional share at VND18,000/share) in Dong Hai Ben Tre (DHC). The proceeds from the offering will be used to finance DHC’s expansion into a new industrial paper mill. At the current price, the stock trades at a EV/EBITDA of ~8.0x, which is still 17% lower than our 2017YE fair valuation target.

As said above, we believe that this period offers a good window of opportunities to increase exposure to fundamentally sound companies at very reasonable valuations. The portfolio currently trades at a 2017F P/E of 10.7x.

Sector Allocation



Valuation

Valuation	P/E		EPS Growth		P/B		Yield
	2016	2017	2016	2017	2016	2017	2016
	(x)	(x)	(%)	(x)	(x)	(x)	(%)
TIM VN Certificate	15.0	10.7	-0.1	-9.8	1.4	1.3	5.0
FTSE VN TR	17.0	17.2	24.0	-1.1	2.4	2.2	2.5
VN Index TR	21.5	19.9	16.4	7.9	2.9	2.6	2.0

Investment Objective and Strategy

Objective: Add value for risk-conscious long-term investors to benefit from future growth in emerging Vietnam, which stands at the beginning of industrialization.

Strategy: A pure bottom-up stock picking approach, based on fundamental analysis of the underlying business and fair price valuation. All assessments are reviewed at least on a quarterly basis or when there is new information deemed to have material impact on valuation. This approach provides us with a high level of confidence, which is especially valuable in times of market overreactions.

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