TIM Vietnam Actively Managed Certificate

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ISIN: CH0374214515

Certificate Unit Price

USD 95.42 As of February 29, 2020

Actively Managed Certificate that offers investors 100% participation in fundamentally sound and fast growing Vietnamese companies	Swiss strategy manager with a 10-year investment track record and a local presence in Vietnam	Daily liquidity with Helvetische Bank AG as market maker

Investment Objective

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

- Our investment approach is based on fundamental analysis of the underlying business and fair price valuation, a leadership position in the local market, strong corporate governance and above average earnings growth prospects compared to its local peers.

- For market timing purposes, we are applying a Technical Trend Following system as a layer to our fundamental analysis.

Performance

All in USD	1 month	3 months	6 months	2020 Ytd
TIM VN Certificate	-2.7%	-6.6%	-6.0%	-5.2%
FTSE VN TR	-5.8%	-12.4%	-12.8%	-9.6%
VN Index TR	-5.8%	-8.9%	-9.7%	-8.4%

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	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

Certificate Activities

- The portfolio's NAV declined by 2.7% vs a decrease by 5.8% of the reference, the FTSE Vietnam Index. Shares of IMP (+6.4%) were the main contributor to the outperformance as investors expect a surge in medicine and supplement sales on the back of the Covid-19 outbreak. Other pharmaceutical stocks also increased strongly on the same expectations, which made this sector somewhat immune to the Covid-19 concern. On the other hand, DHC (-8.7%) was the main laggard in the portfolio, following general market downturn. Quite contrary to the general worries around Covid-19, management shared with us that they now even get more orders from China to replace shortages due to production halts, whereas domestic demand in China remains resilient.

- During the month, the portfolio increased exposure to DXG. The stock has an attractive valuation in our view with a 2020F P/E and with a P/B of 4.7x and of 0.7x respectively. The company is a leading property broker and also a big developer with large landbank and a solid project pipeline.

- On the sell side, the portfolio partially realized gains on healthcare stocks thanks to the surge of the whole sector. We may consider to buy back those stocks after the market starts stabilizing as demand for medicine and supplement in Vietnam is still strong.

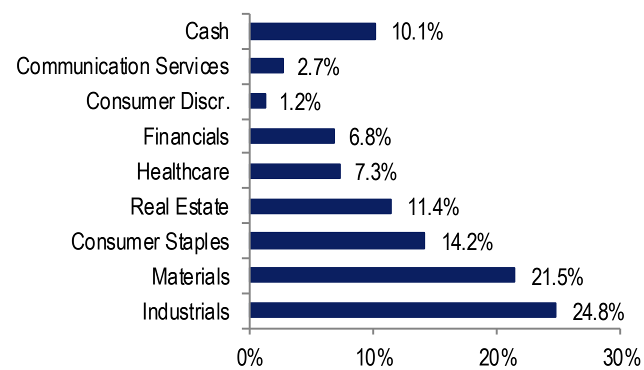
- The Covid-19 outbreak has spread fears across the market, sending down the VN Index by 8.4% YTD. However, we think that the portfolio is less vulnerable to the general market's downturn because: (i) the portfolio don't own any positions in some of the most seriously impacted sectors, namely airlines, tourism & hospitality; (ii) most of the companies in the portfolio are only indirectly affected by potential raw materials shortages. Specifically, some pharmaceutical companies such as IMP, DHG will be affected as China produces about 40% of the total demand of Active Pharmaceutical Ingredients (APIs). DRC (a tire maker) imports chemicals from China. However, according to the management of these companies, they already stocked up their raw material demand till mid-Q2, hence the impact on Q1 earnings should be insignificant. Only if the virus outbreak prolongs to Q2, earnings of these firms may be affected. As for other firms in the portfolio such as QNS, HPG, BMP, etc, they are able to buy the raw material domestically or import it from other nations than China.

- At the end of February, the portfolio was trading at a 2020F P/E and at a P/B of 7.2x and of 1.1x respectively.

Top 5 Holdings

Ticker	Company Name	% Portf
BMP	Binh Minh Plastics	10.26%
DHC	Dong Hai Ben Tre JSC	9.76%
VSC	Viconship JSC	8.83%
QNS	Quang Ngai Sugar	8.65%
HPG	Hoa Phat Group	7.46%

Sector Allocation



Valuation

Valuation	P/E			EPS Growth			P/B			Yield		
	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
	(x)	(x)	(x)	(%)	(%)	(%)	(x)	(x)	(x)	(%)	(%)	(%)
TIM VN Certificate	9.5	9.6	7.2	23.4	-3.0	24.9	1.3	1.2	1.1	4.4	4.6	6.2
FTSE VN	17.0	15.9	13.7	11.8	7.2	16.3	2.7	2.4	2.1	1.5	1.2	1.6
Top 100	15.2	15.0	12.8	26.1	1.6	16.8	2.5	2.2	2.0	1.9	1.8	1.9

Vietnam's Update – Economy

February 2020 macroeconomic highlights:

- Not just in Vietnam, but in all over the world, the outbreak of Covid-19 virus has dominated the February news. The Vietnamese government stepped up its measures to contain the spread of Covid-19 by closing some border gates to China, stopping flights to and from China, closing schools, quarantining people returning from the world's largest impacted clusters (Korea, Italy, and Iran), and encouraging people to avoid crowded places. All these measures have proved to be effective with so far just 16 cases of infected persons. All of them are cured and discharged from hospitals. The side effects of all these measures are most felt in agriculture (with exports to China), aviation, hospitality, entertainment and eating-out services sectors. As for the manufacturing industries, we have talked to a number of domestic and foreign direct investment firms in various sectors. So far, the impact of the Covid-19 is still muted except for the fact that some FDI firms have Chinese staffs that have still not be able to return to Vietnam due to travel bans. Most firms in Vietnam are manufacturing low-valued products, where they typically stock up 3 to 6 months of raw material inventory. Therefore, unless the current situation worsens dramatically and delays production resumption till Q3, most firms say that they won't have shortages of input material for their production. On the output side, some of the companies we talked to said that they have even seen higher demand for their products due to the shortage from China.

- Additionally, the government has actively taken measures to support the economy: On the one hand, the State Bank of Vietnam instructed commercial banks to reduce interest rates and extend debt repayment dates for small and medium-sized enterprises (SMEs). On the other hand, the Ministry of Finance is assigned with devising tax policies to support SMEs, logistics, retail, manufacturing, agricultural processing, tourism and service businesses that are affected by the epidemic.

- In the short run, the Covid-19 outbreak will definitely affect the Vietnamese economy. The most affected sector is likely to be tourism, which contributes about 12% to Vietnam's GDP. According to the Vietnamese National Administration of Tourism, Chinese and Korean visitors accounted for 60% of the total foreign visitors in 2019. Vietnam Airline, Vietnam's largest airline in terms of revenue, reported that 40% of its fleet has to remain on the ground due to the epidemic. A recent estimate by Bloomberg is showing that the Chinese economy has picked up some steam and is now running at 60-70% of its normal level (compared with 50% in early February). Should China be able to further increase its capacities up to a normalized level in coming weeks, the impact on Vietnam's manufacturing sector should be rather small as the first quarter is usually the lowest season of the year. Vietnam's Ministry of Planning and Investment recently updated the country's economic outlook for 2020: If the epidemic can be contained in the first quarter, GDP growth is projected to amount to 6.25%, down 0.55% from the government's target, with an inflation forecast at 3.96%. If the Covid-19 is contained only within the second quarter, growth is still projected to reach 5.96%, while inflation would be 4.86%.

- Even though the short-term impact of the Covid-19 may be material for the Vietnamese economy, the country should achieve credit to become an even more attractive destination for FDI inflows. Vietnam has started to lure Chinese factories since last year during the US-China trade war, and it will further strengthen such efforts as the current epidemic could well re-define the global supply chain: International companies may not only consider tariff differences, but also the stability of operations and the benefit of diversification. As a result, we expect to see more value-added facilities to be set up in Vietnam, particularly in the longer term.

- The Vietnamese currency VND has continued to show its stability among the rising uncertainty on the global economy. YTD, the VND depreciated insignificantly by 0.24% against the USD, according to Vietcombank's exchange rate, compared to a depreciation of 5.2% for the Thai Baht, of 2.8% for the Malaysia Ringgit, of 3% for the Indonesia Rupee, and of 3.7% for the Korea Won. Besides, the US Dollar Index rose 1.8% YTD.

- According to an estimate of the General Statistics Office (GSO), during the first two months of 2020, Vietnam is estimated to have reached export value of $36.9 billion, +2.4% y/y and import value of $37.1 billion, +2.4% y/y. Therefore, the country has posted a trade deficit of ~$176 million during the two-month period. In the context of the Covid-19 outbreak, these results were rather positive.

- On 12 February, the European Parliament finally approved the EU-Vietnam Free Trade Agreement (EVFTA), and also the EU-Vietnam Investment Protection Agreement ("EVIPA"), marking a historic step in the EU-Vietnam trade relationship. These are very positive developments for Vietnam. Vietnam's National Assembly is expected to vote on the trade pact in May of this year, and it is set to be effective one month after both parties have completed all legal procedures. According to EVFTA, the EU will remove nearly 86% of the tariff lines now, and it is planned that almost all (99.2%) tariff lines will be eliminated after seven years.

Vietnam's Update – Stock Market

- The VN-Index as a gauge for Vietnam's stock market fell by 5.8% in February. The decline was broad-based as 229 stocks out of 379 stocks were down. In February, the combined average daily trading volume on the three bourses amounted to $191mn, -14.3% y/y. Foreigner investors were net sellers of USD 135mn. The negative impact of the Covid-19 outbreak on the economy and on the corporate sector dominated the headlines in February. But except for companies in the aviation and hospitality business, no listed company made any statement regarding negative earnings revisions. Most companies we talked to, said that the impact on their businesses should be rather muted. Most of these companies have stocked up sufficient raw materials till mid-Q2 production. In addition, many listed companies are domestically oriented, and therefore they see little reason to change their sales forecasts. Some companies with a small export portion (for example dairy products, packaging paper) even face higher short-term export demand as they have to replace the current global shortage due to the production delays in China.

- Stock markets worldwide have severely plunged on fears about the economic implications of the Covid-19 outbreak. But history shows that markets often overreact. During the last 13 epidemics from 1981 to 2019, the MSCI World Index has gained 8.5% on average in six months since the occurrence of the epidemic. Of course, every of these epidemics was quite different. The current Covid-19 is reportedly more contagious and complicated than most of other viruses since the turn of the millennium. In the worst case, Covid19 can become a global pandemic like the 2009 flu (H1N1) pandemic, which reportedly had more than 25 million confirmed cases and caused about 20K deaths. Ironically, the MSCI World Index rallied strongly about 40% in 6 months since the beginning of the H1N1 pandemic as it was emerging from the financial crisis in 2008. We think that investors are also using the virus outbreak as an excuse for an overdue stock market correction. Maybe valuations were a bit too high as the global economy has been slowing before the Covid-19.

- Will cash be king? The answer is no, cash is just a reassuring mental pill in the short-term. Firstly, cash from any severe selloff is likely to be reinvested again later, most likely at higher stock prices. Secondly, cash is the most vulnerable asset only in a recession when the central bank is excessively easing. As for Vietnam, the solid economic foundation is a winning key in case of a downturn of the global economy. Despite the sharp market setback, we continue to see good investment opportunities in equity of domestic companies with a strong operating cash flow, low leverage, a dominant domestic market share and minimal impact on input from China. In addition, we see opportunity in bonds from domestic companies, which are offering interest rates ranging from 9-11% p.a with strong fundamentals and good collaterals.

- On another market developments, Vietnam's State Securities Commission (SSC) officially approved the IPO of the VFM VN-Diamond – the ETF fund tracking the performance of the VN-Diamond index. The presence of the fund will provide another option for foreign investors to get exposure to full foreign room stocks, and might help improve the market sentiment in coming months.

- By the end of February, the top 100 stocks were trading at a 2020F P/E of 12.8x and at a P/B of 2.0x. Our BUY recommendations have a rather undemanding valuation with a 2020F P/E and a P/B of 8.7x and of 1.6x respectively.