VAM
Vietnam Asset Management Limited

Monthly Newsletter

29 April '11

Market Update

Inflation continued to be headline of the month
Despite the government's increasing efforts in the last several weeks, April CPI came out up by 3.3% MoM and 17.5% YoY, the highest since December 2008 and far exceeding most expectations. This brought CPI growth YTD to 9.64%. Estimates are pointing to 16-18% for 2011 while the government's revised target is to keep 2011 CPI growth not higher than that of 2010, i.e. at 11.75%. Promptly, the central bank reacted by raising two policy rates by 100 basis points on 29 April (increasing refinance rate and discount rate to 14% and 13% per annum, respectively). However, it seems a series of policy rates hikes applied one after another by the central bank in March and April have been insufficiently effective to balance major adverse impacts on inflation, such as large price hikes of local necessity commodities (electricity, fuel, coal), escalating food prices, high interest rates and prolonged global commodity price uptrend. With more fuel price hikes imminent to close the domestic and international price gap and government's decision to adjust electricity price further (likely up by 40%), effective this June we think CPI might not have peaked for this year yet.

Credit tightening will remain probably through Q3
Given ongoing inflationary pressures, interest rates will not come down in the coming months. And the government has repeatedly sent clear signals that they will sacrifice a small growth to contain inflation. GDP growth target for this year was revised down to 6-6.2% from 6.5-7% previously. Local banks have been ordered to reduce credit to non-production purposes to 16% by year-end, and a failure in doing that will possibly result in doubling of reserve requirements (currently between 1-3%). This means loans for sectors like real estate, securities investment and consumption are going to be cut back. This time, the government has shown a strong determination that they will not prematurely halt the tightening policy as they did in the past. We would expect further tightening on credit and public spending if inflation is not going to improve. Hence, we think inflation will eventually be put in check, but it will take more time. Observers are expecting to see improvement in inflation toward the end of Q3 when governments measures have taken clearer effects.

Stability in foreign exchange market was a bright spot in macro picture
Improving stability of the FX market in April was the fruit of a set of government's measures to restore confidence in the currency and gradually minimize dollarization of the economy, an ingrained problem and a culprit for FX instability. According to Asian Development Bank's Vietnam Director, dollars make up about 20% of money used in Vietnam. After the central bank applied dollar deposit cap in April (1% per annum for institutional depositors and 3% per annum for individuals vs. popular 14% deposit rate in dong terms), dollar hoarding has been visibly discouraged. A big commercial bank in Ho Chi Minh city said recently that they bought U$15 million per week compared to U$1-2 million previously, mainly from the public. Toward month end, the dong appreciated against the dollar by 7% in the unofficial market and 3% in the interbank market from its lowest level in February. Encouraged by initial results toward dedollarization, the government is considering measures against 'goldenization' of the economy, the other ingrained problem on the FX front. A deadline to stop gold deposit and lending activities at banks are expected to be released soon. With all these factors, we think the stability of the FX market will continue through the year.

Domestic indicators continued to show positive signals
Apart from inflation, other domestic indicators continued to show positive signals. In the first four months, industrial production value and retail sales expanded respectively by 14.2% and 22.7% on-year. Both exports and imports registered significant growth of 35.7% and 29.1% on-year respectively. However, trade deficit is not getting improved. With March number being revised up to U$1.4 billion from U$1.15 billion and trade deficit in April estimated at U$1.4 billion, year-to-date number stood at U$4.8 billion versus U$4.6 billion in the same period last year. The slight increase in trade deficit was mainly attributable to rising global commodity prices.
With regard to capital inflows, though committed FDI year-to-date showed a decline of 50% YoY, disbursed FDI was still up by 0.6% YoY, estimated at U$3.62 billion. Disbursed ODA in the same period was recorded at U$404 million, fulfilling 16.8% of full-year target. Overseas remittances this year are forecast to be affected by the dollar deposit rate cap, but real effects remain to be seen.

Equity market saw a modest rebound though at low volume
CPI in April seemed not to create much impact on local investors' sentiment as the market did rebound, though at low volume, after the news came out. The explanation was that the CPI number had been largely priced in. Investors are now looking to CPI in May. The further tightening measures have certainly affected the market. The VN-Index closed the month at 480.08 points, up 4.1% MoM with low liquidity. Average daily trading value combined on both bourses dropped to U$42 million versus U$62 million in March. However, as stock valuation is at historically low level, foreign investors have significantly increased stocks accumulation during the month with net purchase of U$43.3 million versus U$9.1 in March, mainly on the HOSE.

Our View

The AGM season has almost come to an end and the overall picture of revenue and profit growth targets for 2011 has been rather unexciting. A large number of listed firms operating in real estate, manufacturing, and some other sectors saw a tumble in the year-end results and even unimpressive performance in the first quarter of this year, resulting from rising cost of capital and accelerating prices of material inputs. As a result, 2011 business plans were set at very conservative levels compared to last year. In contrast, listed banks, especially big ones, still announced strong profit numbers for 2010 and set plan for quite ambitious profit targets for 2011 regardless of tougher regulatory requirements and volatility in the capital markets.
Generally speaking, since the government keeps emphasizing their priority to curb inflation rather than push GDP growth, we believe the lending interest rate will likely not come down, at least till the end of Q3/2011, which will then create more burdens on businesses' operations. Therefore, we see no major positive catalyst to lift the stock market up in short-term. However, in a medium to long-term, we expect tightened monetary policies and fiscal policies will soon have actual impacts to damp inflationary pressure this year and stabilize the market. Additionally, share price plummeting to the low level could be seen as good opportunities to acquire stocks at cheap price. In fact, an active net buying of U$43.3 million from foreign investors in April can be considered positive signs of regaining investors' confidence in the coming time.
At the moment, we think companies with more cash, low debts and good business strategies in lines with global market's demand will continue to show resilience through tough times. As such, we uphold our interests in stocks of telecommunication, dairy, rubber and petroleum sectors. We also watch with interest the banks' performances, which were generally quite impressive in the first quarter of 2011, despite unfavorable macroeconomic conditions.

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Sector valuation

Industry group	Weight %	1M %	3M %	YTD %	2010 PE	2011 PE	2012 PE	2013 PE	2016 PE	P/B	Dvd Yield	ROE	Gross Margin	Op Margin	Net Margin	Net D/E
Vietnam Market	100.0%	-3.7%	-13.8%	-11.3%	8.7	8.5	7.5	6.4	4.8	1.9	4.4	22.3	35.3	26.7	21.2	2.58
Automobiles & Components	1.1%	-6.8%	-25.6%	-27.4%	6.3	5.9	5.4	4.8	4.0	1.6	5.0	24.5	17.8	11.5	6.8	0.3
Banks	22.1%	-4.1%	-14.2%	-10.4%	9.4	7.6	6.8	6.1	5.0	1.4	3.0	18.8	33.2	24.2	17.7	11.1
Capital Goods	3.6%	-6.7%	-17.2%	-22.5%	6.2	7.4	6.6	6.1	5.5	1.3	5.0	17.8	35.0	19.9	26.1	0.1
Commercial Services & Supplies	0.2%	-6.1%	-22.6%	-28.0%	4.6	4.2	3.6	3.2	2.8	0.8	5.0	19.9	33.0	14.5	13.3	0.1
Consumer Durables & Apparel	1.0%	-3.8%	-25.9%	-25.2%	7.7	6.8	6.4	5.7	4.8	1.3	5.8	18.5	10.8	6.0	3.6	0.7
Consumer Services	0.5%	-6.8%	-18.9%	-21.8%	18.4	17.5	16.6	15.7	13.9	1.0	-	6.6	64.7	25.9	24.9	0.1
Diversified Financials	5.5%	-9.0%	-26.0%	-31.3%	9.9	6.0	5.4	4.7	3.6	1.2	7.6	19.2	78.2	76.7	64.2	-0.7
Energy	6.4%	0.1%	-7.8%	-3.9%	9.5	8.4	7.0	6.4	5.3	1.9	4.2	21.5	17.8	12.4	9.0	0.8
Food & Staples Retailing	0.2%	-0.3%	-8.6%	-9.5%	27.3	37.5	74.3	5.7	5.4	0.8	-	9.5	12.8	2.2	2.8	1
Food, Beverage & Tobacco	15.1%	7.5%	4.1%	11.6%	9.3	9.9	7.7	6.3	4.3	3.7	3.5	34.9	32.6	20.2	17.4	-0.1
Household & Personal Products	0.2%	-20.7%	-28.5%	-27.2%	7.9	4.4	4.5	4.4	4.1	0.5	1.5	1.0	18.9	4.7	-1.1	0.9
Insurance	1.4%	-4.5%	-9.6%	-2.8%	6.6	6.5	5.5	4.3	4.1	0.7	4.2	9.7	45.6	7.6	13.4	-1.3
Materials	13.8%	-4.4%	-15.1%	-12.4%	7.4	7.1	6.3	5.5	4.5	1.8	6.8	25.7	27.8	21.3	17.8	0.2
Pharmaceuticals & Biotechnology	2.0%	0.9%	-4.8%	-7.7%	7.7	7.0	6.7	5.1	3.9	1.9	4.1	26.0	44.2	18.0	18.5	-0.3
Real Estate	16.2%	-10.3%	-21.6%	-18.4%	8.3	11.8	9.2	7.5	5.7	1.9	2.2	16.1	47.3	41.1	26.9	0.4
Retailing	0.8%	-5.2%	-16.7%	-18.5%	38.5	5.9	4.9	4.3	3.7	0.8	4.7	15.7	11.5	7.7	5.0	0.7
Software & Services	0.7%	-8.7%	-23.4%	-28.0%	9.1	6.3	6.9	7.0	6.1	1.7	11.2	27.5	18.9	11.2	9.5	0.2
Telecommunication Services	3.7%	-1.3%	-19.4%	-20.2%	7.8	6.8	5.9	5.5	4.5	2.5	2.8	31.3	20.6	10.5	6.5	0.6
Transportation	2.9%	-9.9%	-20.5%	-22.0%	9.7	13.4	23.3	16.1	5.9	0.8	4.3	9.9	18.6	13.5	7.9	0.8
Utilities	2.6%	-9.1%	-21.9%	-21.2%	7.3	6.2	5.7	5.3	4.9	0.9	10.5	13.5	37.4	35.1	40.7	0.5

* *Vietnam Market comprises of both the Ho Chi Minh Stock Exchange (HoSE) and the Hanoi Stock Exchange (HNX).*

******The Sector valuation table is generated by VAM in-house Company Analysis System - VCAS*

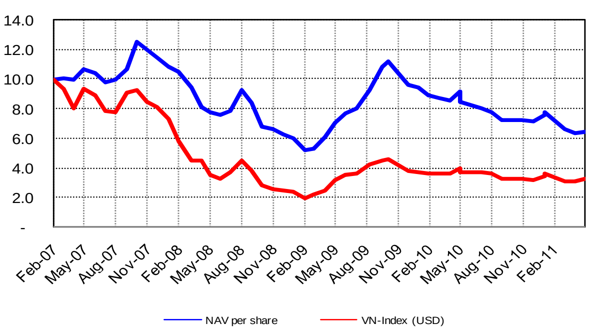
Vietnam Emerging Market Fund (VEMF)

NAV per share	US$6.47
Apr-11	1.7%
YTD	-15.1%
Since inception (Feb 07)	-35.3%
Reuters	65092798
Bloomberg	VAMVEMF KY Equity
ISIN	KYG 936131005
CUSIP	G93613100

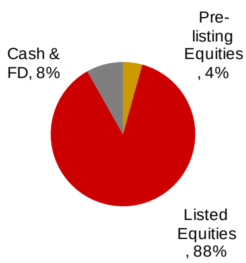
VEMF is a Cayman open-end fund with monthly liquidity for offshore investors. The Fund invests in private equities, privatization, OTC and listed stocks in Vietnam on an actively-managed basis.

As at end April, the Fund's NAV per share was $6.47. With a 1.7% MoM increase, the Fund still continued to lead the VN-Index (in US$), recording outperformance of 32.13% since inception.

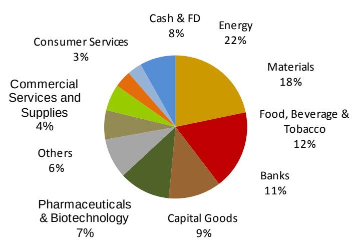
Performance vs. VN-Index (US$)



Fund Breakdown



Sector Breakdown



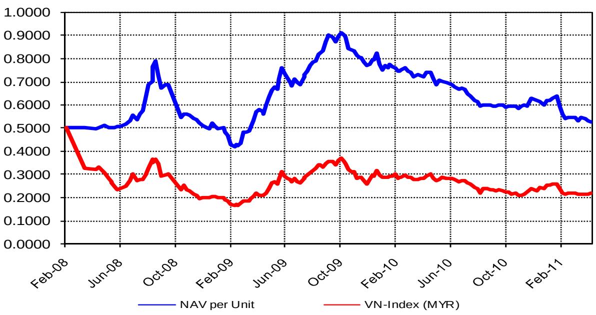
Hong Leong Vietnam Fund (HLGVF)

NAV per unit	RM 0.5273
	US$ 0.1770
Apr-11	-0.95%
YTD	-14.85%
Since inception (Feb08)	5.5%
Bloomberg	HLGVIET:MK

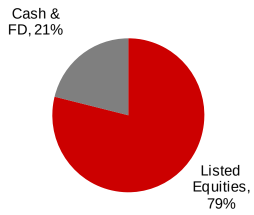
HLGVF is an actively-managed open-end unit trust for Malaysian high-net-worth investors. The Fund invests in OTC, pre-listing and listed stocks in Vietnam.

As at end April, the Fund's NAV per unit was RM0.5273. Despite a 0.95% MoM decrease, the Fund was up 5.5% since inception and continued to lead the VN-Index (in MYR), recording outperformance of 62.5% since inception.

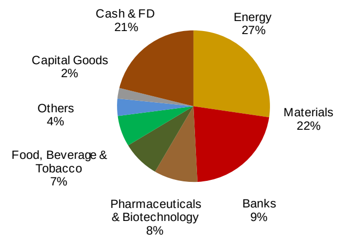
Performance vs. VN-Index (MYR)



Fund Breakdown



Sector Breakdown



HS-VAM Vietnam Index Linked Fund (VILF)

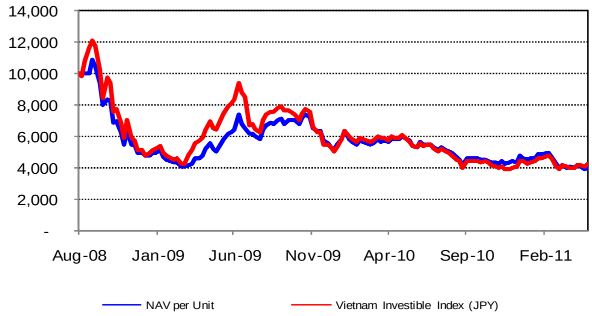
NAV per unit	JPY 4,133
	US$ 49.97
Apr-11	2.6%
YTD	-8.5%
Since inception (Jul08)	-58.7%
Bloomberg	VAMINLI KY Equity

As of 27 Apr '11

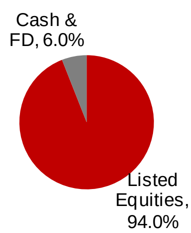
VILF is a Cayman open-end unit trust for Japanese retail investors. The Fund invests in top 20 investible listed blue-chips in Vietnam on a passively-managed basis.

The Fund's NAV per unit increased 2.6% MoM to close at JPY 4,133 on 27 April 2011.

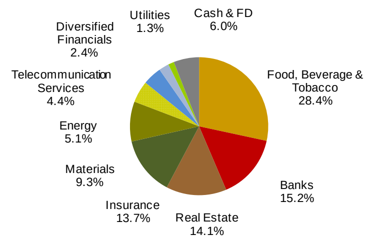
Performance vs. VII (JPY)



Fund Breakdown



Sector Breakdown



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