VAM
Vietnam Asset Management Limited

Monthly Newsletter

29 July '11

Market Update

Grappling with inflation

In choosing a highlight for the month, CPI would again make headlines. CPI for July rose 1.17% month on month, putting the price index year-to-date increase at 14.61%. A major driver of this index was the 2.12% month on month increase of food & foodstuff. Despite a good harvest, rice prices have not fallen, in part due to Chinese merchants offering farmers higher prices for large quantities of agriculture products. Higher prices are also expected later this year for subsidized items such as electricity, fuel and coal as these price hikes have been delayed, causing stabilization subsidy funds to run low. The government's CPI target for the year is 17%.

Gold exports help trade balance

The traded deficit reported in last month's market update of $400 million has been revised down to $160 million. For the month of July, the trade deficit has come in at $200 million – the second lowest for the year. Exports for the month, down 0.7% from June were estimated at $8.4 billion, while imports, also down a slight 0.2% totaled $8.6 billion. Between January and June, exports increased 32.6% over 2010, totaling $43.06 billion, while imports rose 27.1%, totaling $49.5 billion. Contributing to the recent increase in exports were higher commodity prices for rubber and oil (along with increased volumes) and continued gold exports. Gold arbitrageurs continued to take advantage of an approximate $15 per ounce difference between domestic and international markets; however, this activity will probably decline as the Ministry of Finance (MOF) has proposed a tax on gold jewelry to prevent exporters from exporting bullion as jewelry products in an attempt to avoid taxes applied on gold with purity above 99%. Gold exports are currently playing an important role in the trade deficit and the balance of payments.

Interest rates decrease slightly

Little change in interest rates for the month, however the OMO rate has decreased from 15% to 14% to give banks greater liquidity. The decrease in OMO rates we are told is not to be considered easing in monetary policy, but rather characteristic of market conditions. Lending rates remained between 20-22%, while many banks broke the stipulated 14% deposit cap, paying 15-17%. The high lending rates, putting downward pressure on margins, have caused some companies with established brands to issues straight and convertible bonds in the Singapore market.

Market reform

The MOF's market reform announcement allowing margin lending, opening of multiple accounts and same day trading for stocks already in an investor's portfolio becomes effective August 1, 2011. As written last month, this reform is encouraged by the market but considered miserly by broker dealers who favor a 20:80 margin ratio, rather than the 30:70 ration proposed.

Vietnamese dong steady

Stability in the dong continued for another month as the State Bank continued purchasing dollars for its reserves. Outbidding most participants in the open market, SBV has increased foreign exchange reserves by approximately $4 billion USD this year. The USD/VND rate stayed flat in July and was 20.608 VND per USD on July 31st. The gap between the official and unofficial exchange rate is nearly non-existent now. Another devaluation in the dong to help maintain competitive is rumored for late 2011 as corporation sell dong to repay dollar denominated loans, however, its in not expected to be as significant as the most recent devaluation in March and may even be postponed till 2012.

Markets unphased by election results

In a symbolic vote on July 25th, Vietnam's one-party parliament elected Truong Tan Sang Vietnam's State President, who then appointed the country's most powerful politician, Nguyen Tan Dung for a second five-year term as Prime Minister. The markets showed little reaction to this political news as sweeping changes were not expected. June 30th, the VN-Index closed at 432.54 points, while on the July 29th, the last business day of the month, the index posted at 405.7 points, representing a 6.2% decrease for the month. This also represents a 16.29% decline since the last business day of 2010. Liquidity for the month is at a 28 month low as equity appetite remains low and foreign investors divest. SBV mandate to bring non-productive loans to 22% of total loan book was surprisingly and yet successfully met by all banks by the June 30th deadline. The State Bank worked on a case-by-case basis bringing the few laggards within the target ratio. Bringing that ratio down to 16% by year-end is shaping up to be a difficult task, although, with the first deadline passing, some of the loan collection pressure on securities and real estate lending may have eased slightly.

Slower GDP growth

GDP rose by 5.57%, in Quarter 2, down from 6.8% during the same period last year. Quarter 1 reported growth of 5.4%. GDP is also lower than the 6% approved by the government and on a slowing trend and likely to remain so due to the tight macro environment and high lending rates.

Our View

The 1.17% MoM increase in nationwide July CPI MoM was higher than expected and became a threat to the government's efforts to keep inflation within target. It means that from now till the end of this year, there would be numerous tasks for a newly elected government cabinet to work out in order to control the price level considering volatility in global price of commodities and raw materials.

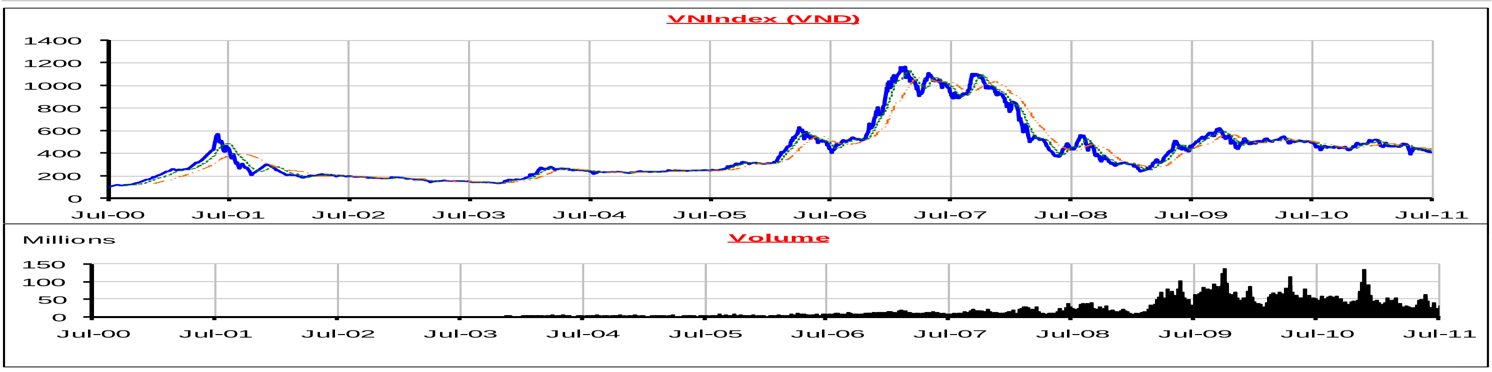
The 13th National Assembly meeting has ended with key positions in the new government cabinet being filled unsurprisingly with some old faces. Therefore, we do not expect to have any significant changes in government's policy direction, of which curbing inflation will continue to be the top priority. Despite a slowdown in GDP growth, a reduction in national trade deficit, the uptrend in CPI has caused some tension for the government in managing macro-economic policies.

Together with tightened monetary policies, administrative measures and restrictive fiscal policies will be further implemented to curb inflation. Apparently, this kind of movement will have a negative impact on the stock markets' performance. Though a stimulus package has been proposed to boost the stock market, there would be not much potential upside for the market since the money inflow was still limited and investors' sentiment was exceptionally fragile.

Generally speaking, Vietnamese markets' performance has been quite dreary and investors' confidence deteriorated while share prices have kept breaking record lows with no sign of retreating. In the short term, the market may see negative news of foreign funds' divestments and poor business results of companies due to the high interest rate environment. Therefore, a rebound is still not within sight.

As mentioned before, majority of listed firms have disclosed their half-year business results in July and the numbers have neither impressed nor surprised investors. Apart from banks and a few leading companies reporting good earnings, 60% of listed firm announced significant decline in their earnings or even losses (securities firms), on the back of high interest expenses, rising input costs and weak demand. Due to the poor start, achieving good full-year results has become a challenge to all listed companies. There are even talks of SMEs facing bankruptcy and an M&A and consolidation wave taking place.

Given the existing economic difficulties and stock market uncertainties, we remain cautious, liking only stocks with good fundamentals, decent growth, healthy balance sheet and enjoying strong demand such as dairy, consumer staples, natural rubber, oil and gas, and even defensive industry like pharmaceutical. Additionally, banking stocks are in our watch list as they are still doing well despite what seems like a tough environment for banks.



c/o: Unit 11-08, Saigon Trade Center, 37 Ton Duc Thang, Dist.1, HCMC, Vietnam, T:+848 3910 3757 - F: +848 3910 3794
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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%	-1.3%	-5.3%	-14.2%	7.7	7.5	6.3	5.5	4.8	2.0	4.5	24.6	34.9	24.7	21.1	3.31
Automobiles & Components	1.1%	-11.1%	-30.8%	-50.7%	4.1	5.0	4.4	4.3	2.4	1.1	6.7	24.1	17.3	11.6	6.6	0.3
Banks	23.8%	3.4%	1.9%	-9.1%	8.1	6.0	5.3	5.1	4.2	1.5	2.5	22.1	36.4	24.2	17.6	13.5
Capital Goods	3.8%	-11.2%	-18.8%	-38.2%	4.6	6.1	5.0	4.6	4.4	0.9	7.4	16.5	34.6	15.9	27.2	0.1
Commercial Services & Supplies	0.3%	-9.9%	-18.4%	-42.1%	3.7	3.7	3.0	2.4	2.0	0.7	6.2	17.6	30.3	12.3	12.7	-
Consumer Durables & Apparel	1.1%	2.0%	-1.0%	-26.1%	7.0	6.2	5.8	5.2	4.4	1.1	5.4	17.5	11.2	6.4	3.8	0.7
Consumer Services	0.1%	-3.0%	-12.5%	-31.6%	2.2	2.0	1.9	1.7	1.5	0.6	-	26.0	94.8	63.9	67.2	-1
Diversified Financials	4.8%	-4.4%	-5.1%	-35.4%	8.2	5.2	4.7	4.1	3.2	1.1	7.7	19.1	78.5	73.9	62.2	-0.7
Energy	7.1%	-5.0%	-16.7%	-20.4%	7.3	6.8	5.6	5.1	4.2	1.5	5.1	21.9	17.2	11.9	8.6	0.8
Food & Staples Retailing	0.1%	-2.1%	-2.1%	-13.7%	5.2	5.3	5.4	5.3	5.1	1.1	-	18.1	16.7	8.2	5.3	1.1
Food, Beverage & Tobacco	19.5%	1.8%	5.8%	17.9%	10.1	10.3	7.9	6.4	4.2	4.2	3.5	36.9	32.8	20.5	17.7	-0.1
Household & Personal Products	0.3%	-8.3%	-3.8%	-31.9%	7.1	4.2	4.2	4.2	3.9	0.5	1.6	0.8	18.9	4.6	-1.2	0.9
Insurance	1.9%	-9.8%	-4.5%	-9.6%	5.5	5.7	5.6	7.1	-	0.5	3.4	8.7	39.7	3.6	12.3	-1.3
Materials	12.8%	-3.3%	-10.6%	-22.4%	6.3	5.3	4.8	4.2	3.4	1.6	8.0	28.5	28.6	22.0	18.7	0.1
Pharmaceuticals & Biotechnology	2.1%	10.4%	11.4%	2.6%	8.5	8.1	8.1	6.6	4.6	2.2	5.2	27.3	44.3	16.9	17.3	-0.3
Real Estate	12.8%	-10.5%	-22.2%	-37.2%	6.4	9.2	7.2	5.5	4.8	1.6	2.2	16.5	43.5	37.8	34.0	0.4
Retailing	0.7%	-7.5%	-8.3%	-24.6%	6.0	3.5	3.5	2.9	2.5	0.7	8.3	20.5	6.7	2.6	2.1	0.5
Software & Services	0.6%	-3.8%	-27.4%	-47.0%	5.6	4.4	4.8	4.8	4.1	1.4	15.8	29.8	20.2	12.1	10.8	-
Telecommunication Services	3.9%	16.0%	12.4%	-11.2%	7.8	6.8	5.9	5.5	4.5	2.5	2.9	31.5	20.6	10.5	6.5	0.6
Transportation	2.2%	-6.7%	-21.3%	-39.2%	7.6	19.9	18.9	13.5	41.7	0.6	6.0	10.9	21.3	15.1	9.7	0.3
Utilities	1.1%	0.5%	-10.6%	-29.6%	7.0	6.6	5.9	5.5	5.0	0.8	10.7	12.4	56.7	53.6	60.3	-0.1

** 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*

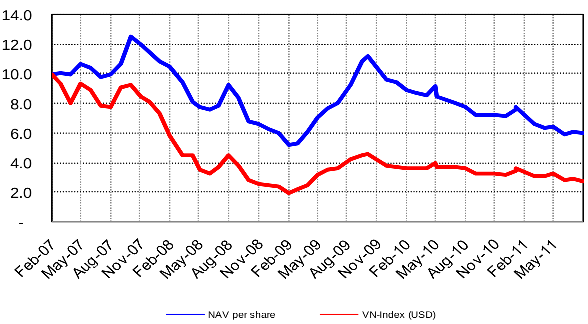
Vietnam Emerging Market Fund (VEMF)

NAV per share	US$6.01
Jul-11	-1.6%
YTD	-21.1%
Since inception (Feb 07)	-39.9%
Reuters	65092798
Bloomberg	VAMVEMF KY Equity
ISIN	KYG 936131005
CUSIP	G93613100

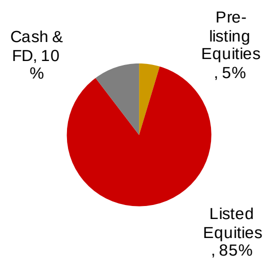
VEMF is a Cayman open-end fund with monthly liquidity for offshore investors. The Fund invests in private equities, privatization, OTC and listed stocks in Vietnam on an actively-managed basis.

As at end July, the Fund's NAV per share was 6.01. Despite a 1.6% MoM decrease, the Fund still continued to lead the VN-Index (in US$), recording outperformance of 4.64% MoM, and 32.51% since inception.

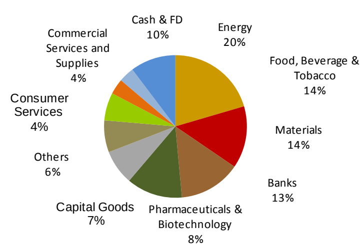
Performance vs. VN-Index (US$)



Fund Breakdown



Sector Breakdown



c/o: *Unit 11-08, Saigon Trade Center, 37 Ton Duc Thang, Dist.1, HCMC, Vietnam, T:+848 3910 3757 - F: +848 3910 3794*
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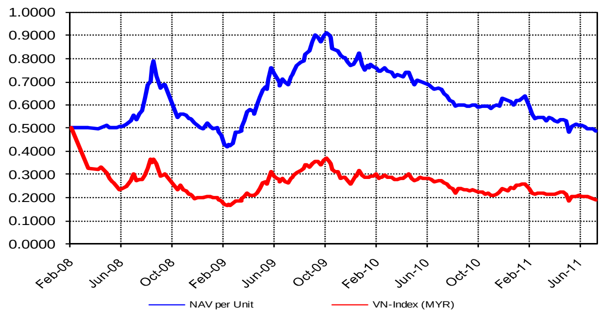
Hong Leong Vietnam Fund (HLGVF)

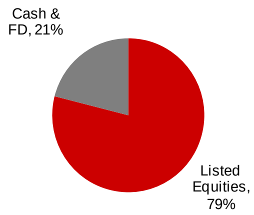
NAV per unit	RM 0.4894
	US$ 0.1666
Jul-11	-3.24%
YTD	-20.97%
Since inception (Feb08)	-2.1%
Bloomberg	HLGVIET:MK

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 July, the Fund's NAV per unit was RM0.4894. Despite a 3.24% MoM decrease, the Fund continued to lead the VN-Index (in MYR), recording outperformance of 4.5% MoM and 60.5% since inception.

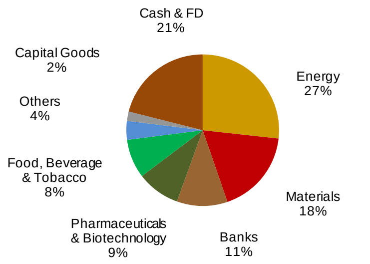
Performance vs. VN-Index (MYR)



Fund Breakdown



Sector Breakdown



HS-VAM Vietnam Index Linked Fund (VILF)

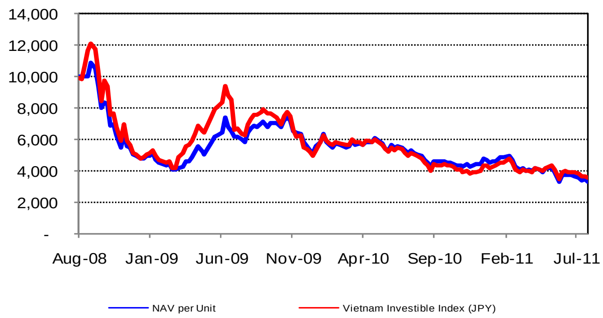
NAV per unit	JPY 3,295
	US$ 42.26
Jul-11	-9.9%
YTD	-27.1%
Since inception (Jul08)	-67.1%
Bloomberg	VAMINLI KY Equity

As of 27 July '11

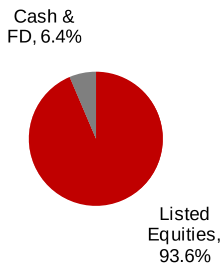
VILF is a Cayman open-end unit trust for Japanese retail investors. The Fund invests in top 20 investible listed blue-chips in Vietnam on a passively-managed basis.

The Fund's NAV per unit decreased 9.9% MoM to close at JPY 3,295 on 27 July 2011.

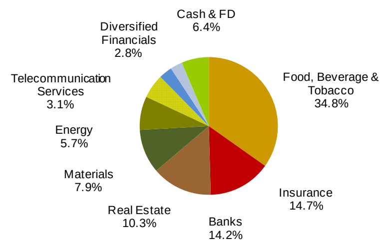
Performance vs. VII (JPY)



Fund Breakdown



Sector Breakdown



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