

## Market Update

### Interest rates the highlight of the month

With the aim of controlling inflation, the SBV tightened money supply, thereby increasing interest rates. Market interest rates are now averaging 19.86% for short term borrowing, and if including fees (which banks apply to get around the lending rate cap) the effective borrowing costs increased to 23%. On the other hand, the US\$ cost of borrowing (approximately 3%) and the rate paid by SOE's is actually negative in real terms, due to a two-tier lending rate. Rates at these prohibitive levels in the private sector threaten to choke off any growth for the year; despite this, another 100 bps interest rate hike for the year is still a possibility. Following April's introduction of USD-denominated deposit cap of 3% for individuals, domestic residents attracted by the large gap between USD and VND deposit rates, opted to keep fewer dollar deposits, thereby contributing to 2.89% MoM decline in USD-denominated deposits. VND-denominated deposits increased by 1.27%. No slowdown in credit growth, as seen by M2 levels, is yet visible. With credit growth reaching 6.5% year-to-date (as of April), the annual target credit growth rate of 16 – 18% will likely be overshoot. The SBV lifted Open Market Operations repo rates 100 bps to 15%, thus sending a message that tight monetary conditions will remain.

### Inflation still very much a concern

Nationwide CPI rose 2.21% MoM (2.1% when seasonally adjusted) with the first five months of 2011 reaching 12.07%. Inflation in May continued to accelerate, approaching levels not seen since 2008 with no signs of easing. Three months into a shift in focus from growth to curbing inflation, monetary authorities have used both fiscal and monetary tools, tightening aggressively, yet little impact is invisible. Seasonally adjusted food prices were up 3% MoM in May, following a 3.8% increase in April. Prices in food and energy related items were most noticeably up, however, it should be noted that this was aided by double digit hikes in electricity and fuel prices in late February and later March. It is likely that inflation will surpass 20% in the coming months and further monetary tightening is to be expected.

### Stability in the dong continues

Stability in the VND/USD exchange rate continued into the month of May. With the dong appreciating about 0.43% over the previous month, banks appear

to have sufficient USD dollar supplies to meet importers' needs. Although exact figures are difficult to come by, recent media reports have quoted a government minister as saying that reserves stood at \$10bn (the equivalent to about 6 weeks of imports) in December 2010. Towards the end of May, the central bank announced that it has purchased USD 1.2bn with the aim of increasing international reserves. In this quest, the SBV outbid the market by 40 – 50 dong, to VND 20,600 per USD, indicating it exercises caution while added to reserves by striving to avoid furthering inflation through increased liquidity.

### Domestic indicators continued to show positive signals

Domestic indicators such as growth in exports and imports both continued to show increases for the month however, growth came at a decreasing pace than in April. Exports and imports, increased at 5.7% and 2.7% respectively for May. While May's trade deficit came to US\$1.7bn, the highest in 18 months, the drop in commodity export growth rates was a contributing factor. Domestic consumption remains strong with industrial production expanding by 14.4% YoY and retail sales growing by 23.7% YoY, FDI, overseas remittances and aid money remain important sources of exchange for Vietnam to offset its trade deficit. FDI figures for the first 5 months of the year totaled \$4.7bn, or about 23.5% of the year's target.

### Equity markets

Starting the month after a long holiday weekend, the VN-Index opened at 483.3 points and ended the month at 421.37, representing a 12.23% loss MoM. The VN-Index even plummeted to 386.36 points on 23 May 2011, its lowest level since 2009. May also saw dramatic downward trend in trading volume and a squeeze on liquidity on both bourses. Trading values for both bourses fell for yet another month, dropping to \$27 million in May, down from \$62 million and \$42 million in March and April, respectively.

The massive sell-off from retail and even institutional investors resulted from investors' low confidence which in turn was caused by the upward revision of inflation forecast and "persistently high interest rate". Moreover, news about the banks' deadline to reduce real-estate and non production loans to below 20% of total loans also ignited fears of margin calls and forced selling to recover bad debts on the banks' part, leading to a 10 consecutive bear sessions on the mar-

ket in spite of a strong rebound after hitting the record 2 year low bottom. Further contributing to downward pressure was many investors needing to meet margin calls by liquidating holdings at limit down prices in a period of low liquidity. The trading band further fueled negative sentiment by preventing the market from finding its true equilibrium. Rounding out the month, the market saw an upturn with several large caps closing limit up. Many investors are abstaining from the market, choosing instead bank fixed term deposits as high bank interest rates provide a profitable, safe alternative.

To better reflect the true sentiment in the market, a senior official has called for the introduction of new indices. While the composition of the indices is yet to be determined, suggestions range from top 30 or top 50 large-market cap companies or dividing the market into business sectors. The poor equity market performance shows macroeconomic factors continue to impede recovery and outlook remains bearish.

## Our View

We believe the market will continue to fluctuate within the wider range of the trading band in the short-term as investors' key concerns, namely double-digit inflation and trade deficit are still prevalent. Economic recovery seems a distant prospect, and investors prefer the high fixed deposit rate to equity at this time. However, in term of valuations, we think Vietnamese equities are currently priced more cheaply than those of other regional markets.

In response to poor market sentiment, the Ministry of Finance recently announced their support to recover the equity market by allowing (1) investors to use more than one brokers; and (2) buying and selling the same securities within a trading day provided that investors' securities for sales are available in their depository accounts, with effect from 1st August 2011. This news is considered good catalyst to regain the capital inflow into the system despite the current market instability. For investors with a medium- to long-term outlook, the current poor market is a great opportunity to increase their equity holdings at cheap valuations. We maintain our picks of telecommunication, consumers and energy sectors with focus on strong fundamental resilient companies with little or no debts as most companies in the other industries are struggling hard with the high-interest rate environment.



## 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%	-10.7%	-14.8%	-18.9%	7.9	7.8	6.8	5.6	5.1	1.9	4.7	23.3	32.8	23.9	20.0	3
Automobiles & Components	0.9%	-21.1%	-31.4%	-42.7%	5.5	5.0	4.5	4.1	3.3	1.4	6.3	24.9	18.3	11.8	6.8	0.4
Banks	24.1%	-2.7%	-8.8%	-12.8%	9.4	7.6	6.6	5.8	4.7	1.4	3.0	19.2	32.1	23.0	16.8	11.7
Capital Goods	3.0%	-14.8%	-24.3%	-34.0%	5.1	6.3	5.5	5.2	4.5	1.2	6.2	18.9	37.9	21.4	28.6	0.2
Commercial Services & Supplies	0.2%	-5.4%	-17.5%	-31.8%	4.7	4.6	3.6	2.9	2.2	0.9	6.4	18.9	32.9	13.5	11.5	0.1
Consumer Durables & Apparel	0.9%	-16.5%	-27.0%	-37.5%	6.3	5.6	5.2	4.7	4.0	1.1	7.0	18.7	10.8	6.0	3.7	0.7
Consumer Services	0.0%	-26.1%	-36.1%	-42.2%	1.9	1.7	1.6	1.5	1.3	0.5	-	26.0	94.8	63.9	67.2	-1
Diversified Financials	4.4%	-19.4%	-31.0%	-44.6%	7.7	4.8	4.3	3.8	2.9	0.9	8.8	19.1	78.4	75.0	63.0	-0.7
Energy	7.1%	-13.2%	-14.2%	-16.6%	8.3	7.4	6.1	5.6	4.7	1.6	5.0	21.5	17.4	12.1	8.8	0.8
Food & Staples Retailing	0.1%	-6.6%	-12.0%	-15.5%	5.3	5.4	5.5	5.5	5.2	1.1	-	18.1	16.7	8.2	5.3	1.1
Food, Beverage & Tobacco	18.4%	-4.1%	3.7%	6.9%	9.1	9.4	7.3	5.9	4.0	3.8	3.5	35.9	32.8	20.4	17.5	-0.1
Household & Personal Products	0.2%	-11.1%	-33.3%	-35.3%	6.6	4.3	4.3	4.3	3.9	0.5	1.9	1.7	19.1	4.9	-0.7	0.9
Insurance	0.8%	-9.7%	-21.0%	-12.2%	5.7	5.6	4.7	3.7	3.9	0.6	4.9	9.7	45.6	7.6	13.4	-1.3
Materials	13.6%	-10.0%	-13.3%	-21.2%	6.7	6.3	5.7	5.0	4.1	1.7	7.6	25.8	27.8	21.2	17.9	0.2
Pharmaceuticals & Biotechnology	2.1%	-8.3%	-9.3%	-15.4%	7.1	6.5	6.4	4.9	3.6	1.9	4.4	26.4	44.7	18.1	18.5	-0.3
Real Estate	15.4%	-23.4%	-34.7%	-37.6%	6.5	8.6	6.6	5.1	4.3	1.5	3.5	17.4	40.2	34.3	30.3	0.6
Retailing	0.6%	-13.3%	-18.3%	-29.3%	5.4	3.4	3.4	2.9	2.5	0.7	7.9	19.3	7.0	2.7	2.2	0.5
Software & Services	0.6%	-19.0%	-34.9%	-41.7%	7.4	5.1	5.6	5.6	4.9	1.4	14.0	27.5	18.9	11.2	9.5	0.2
Telecommunication Services	3.7%	-11.4%	-16.6%	-29.3%	6.9	6.0	5.2	4.9	4.0	2.2	3.3	31.4	20.6	10.5	6.5	0.6
Transportation	2.7%	-23.2%	-31.9%	-40.1%	8.4	17.5	23.2	15.1	31.8	0.6	5.5	7.9	18.4	12.7	6.2	0.9
Utilities	1.3%	-14.5%	-30.8%	-32.6%	6.5	5.5	5.1	4.7	4.4	0.7	12.3	13.4	54.3	51.3	58.6	-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

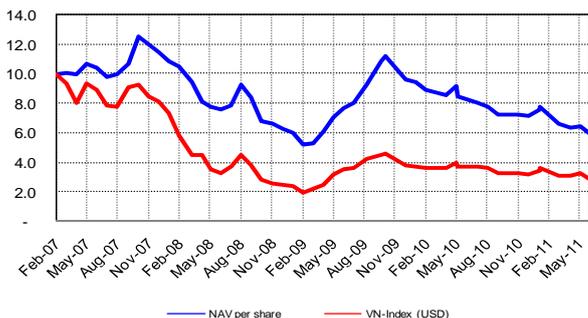
## Vietnam Emerging Market Fund (VEMF)

NAV per share	US\$5.96
May-11	-7.9%
YTD	-21.8%
Since inception (Feb 07)	-40.4%
Reuters	65092798
Bloomberg	VAMVEMF KY Equity
ISIN	KYG 936131005
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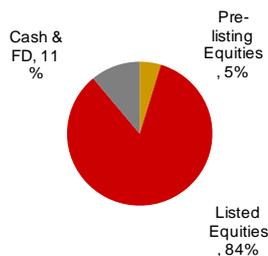
VEMF is a Cayman open-end fund with monthly liquidity for offshore investors. The Fund invests in private equities, privatization, OTC and listed stocks in Vietnam on an actively-managed basis.

As at end May, the Fund's NAV per share was \$5.96. Despite a 7.9% MoM decrease, the Fund still continued to lead the VN-Index (in US\$), recording outperformance of 3.92% MoM, and 30.88% since inception.

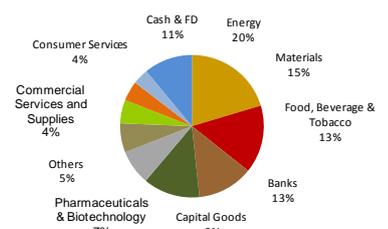
### Performance vs. VN-Index (US\$)



### Fund Breakdown



### Sector Breakdown



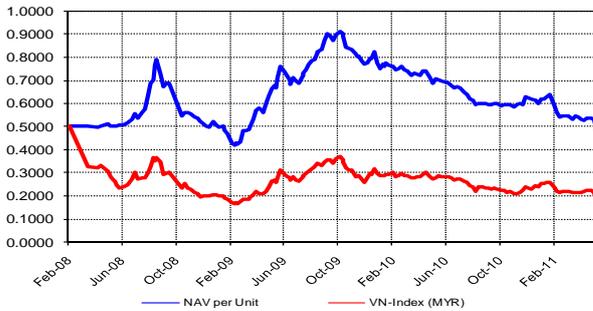
## Hong Leong Vietnam Fund (HLGVF)

NAV per unit	RM 0.4827
	US\$ 0.1579
May-11	-8.47%
YTD	-22.06%
Since inception (Feb08)	-3.5%
Bloomberg	HLGVIET.MK

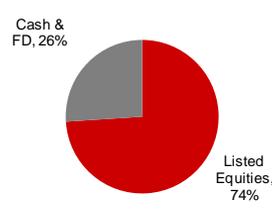
HLGVF is an actively-managed open-end unit trust for Malaysian high-net-worth investors. The Fund invests in OTC, pre-listing and listed stocks in Vietnam.

As at end May, the Fund's NAV per unit was RM0.4827. Despite a 8.47% MoM decrease, the Fund continued to lead the VN-Index (in MYR), recording outperformance of 7.2% MoM, and of 60.3% since inception.

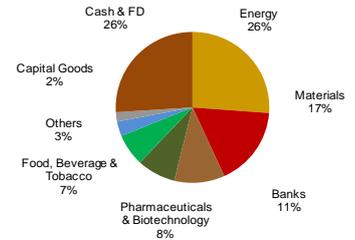
### Performance vs. VN-Index (MYR)



### Fund Breakdown



### Sector Breakdown



## HS-VAM Vietnam Index Linked Fund (VILF)

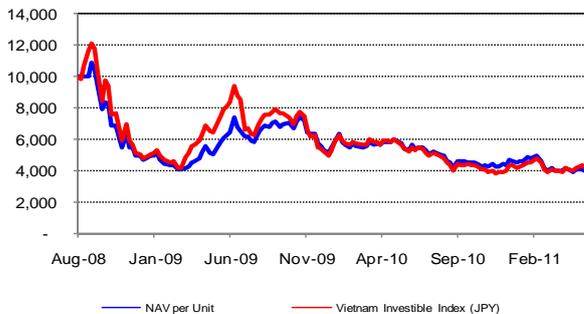
NAV per unit	JPY 3,338
	US\$ 40.71
May-11	-19.2%
YTD	-26.1%
Since inception (Jul08)	-66.6%
Bloomberg	VAMINLI KY Equity

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.

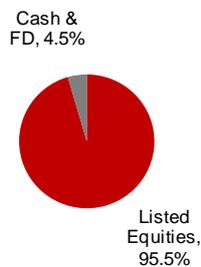
The Fund's NAV per unit decreased 19.2% MoM to close at JPY 3,338 on 25 May 2011.

As of 27 Apr '11

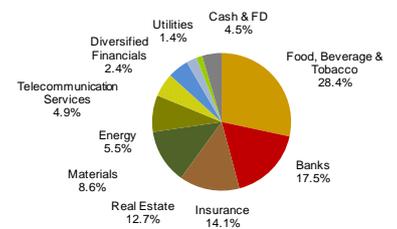
### Performance vs. VII (JPY)



### Fund Breakdown



### Sector Breakdown



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