

## Market Update

### January's trade figures revised to surplus, February's figures in deficit

The earlier reported trade deficit of USD100m in January was revised to a surplus of approximately USD170M. February's trade figures from the GSO, report a USD800m deficit. Much of the deficit is due to increasing raw material imports, accessories and equipment needed to serve exports.

### February's inflation higher on MoM basis yet continues to decline YoY

Inflation for February increased 1.37% over January. While higher than January's 1% increase, seasonal factors were at play. Driving inflation in HCM was food prices, while fuel and housing utilities drove prices higher in Hanoi. Despite the increase over January's CPI index, YoY inflation is 16.44%, down, from January's YoY rate of 17.27%. The SBV Governor signaled earlier this month that as inflation eases, interest rates will be reduced to more "suitable levels".

### Import tariffs on petroleum products cut to avoid spurring inflation

Petroleum products imported from Singapore have begun to increase in price as risk premium increases with tensions over Iran's nuclear dealings. To avoid spurring inflation as forecasts predict domestic prices may rise to about VND24,000 per litre, the MoF has slashed import tariffs on kerosene and diesel from 5% to 3%; gasoline and jet fuel tariffs which were 4% have now been eliminated. Despite the tariff reductions, petroleum importers have been complaining about suffering losses of at least VND2,000 per litre sold.

### FDI disbursements for January and February reach USD1bn, down from 2011

FDI disbursements for the first two months of 2012 reached USD1bn. This figure is 9% below the same period in 2011. Also down from last year was the number of licensed projects. A large problem with attracting FDI to Vietnam is the slow disbursement rate; total capital registered but not disbursed has reached USD108bn. Vietnam invites FDI inflows to the agricultural, industrial

processing, and hi-tech area, however most of the large FDI projects steer towards real estate, accommodation, and non-production sectors, which are now stagnant.

### Short-term Interbank borrowing rates drop, medium terms rise

At current, Interbank overnight rate is 11.06%, down from 13.52% reported in the first week of February. 1- and 3-month rates, however, have crept up about 1.3ppts and 3ppts, respectively, since early February. Meanwhile, borrowing costs at Agribank are set to be reduced on all loans by an average of 0.5-1%. Currently, preferred customers at Agribank can borrow for as low as 16% per annum. Most banks continue to offer the ceiling 14% on deposits despite reports that banking system deposits were down 3.29% at mid-month.

### FX reserves increase as Dong continues to stabilize

The average Interbank exchange rates continues to be VND20,828 per USD and has been unchanged since December 26, 2011. With foreign liquidity positions in the banking system ample, some banks have begun to sell foreign currencies to the SBV, thereby improving the country's FX reserves.

### Bloomberg rates Vietnam top Frontier market; Fitch rates Vietnam B+

In Bloomberg's Frontier market survey, Vietnam received top ratings amongst a group of 15, beating out UAE and Bulgaria for the top spot. Vietnam was also amongst the cheapest in terms of valuation in its group, with a P/E of 7.19. On a somewhat related note, Fitch Ratings rated Vietnam a B+ with a Stable outlook.

### Banking sector rallies as forced mergers likely

The SBV issued Directive 1, which affirms the continued classification of property loans and security loans as non-encouraged and thus restricted to a maximum of 16% of all loans. The Directive also divided banks into four groups based on the health of their operations, ranging from Group 1, the healthiest, to Group 4, the weakest. These four groups are permitted 17%, 15%, 8% and 0% credit growth, respectively. As many banks have been

growing at 30-40% in recent years, this will likely have some implications on the economy. Meanwhile, the SBV has said it is ready to force mergers among weak banks in an effort to overhaul the system. This caused speculative money to pour into selective banking stocks during the month.

### Strong market continues through February

The robust start to the calendar year continued into February as the market rally continued. With the macro environment continuing to improve, all three indices saw significant gains. Closing at 423.64, the VN-Index increased 9.2% on month; the HNX improved 13.4%, closing at 68.68; and the VN30 index, which is less than a month old, closed up 8.7% to close at 483.19. Beginning March 5, trading hours for both the HNX and HOSE will be extended with the addition of an afternoon trading session. New trading hours will be 9am-11:30 and 1pm-2:15pm. The longer trading day aims to increase trading turnover.

### Our view

We think that the macro environment has by and large turned for the better, with inflation declining, currency stabilizing, trade balance improving and interest rates dropping. This should bring some cheer to businesses which have been suffering high borrowing cost that eats into their margins. However, there are still some roadblocks ahead, including lackluster FDI prospect, gloomy export outlook and uncertainties regarding how the banking reform will unfold. We think exporters will not do well this year and therefore prefer the strong domestic plays instead. With improved investor sentiment in recent weeks, we believe there is good reason now to believe this year will be a better year than 2011 for the stock market. We remain selective with our bottom up stock picking but have increasingly turned toward higher beta stocks, which we think we perform better than their defensive counterparts in a year of market turnaround. Although there will be short-term pullbacks, we believe the general trend for the stock market toward the year-end will be an uptrend, and we are working hard at screening our investment universe for good recovery plays.



## Sector valuation

Industry group	Weight %	1M %	3M %	YTD %	2011 PE	2012 PE	2013 PE	2014 PE	2016 PE	P/B	Dvd Yield	ROE	Gross Margin	Op Margin	Net Margin	Net D/E
Vietnam Market	100.0%	14.6%	15.2%	23.6%	8.6	7.4	6.3	5.2	3.9	1.9	5.7	22.6	31.9	21.8	19.1	4.04
Automobiles & Components	1.0%	9.3%	15.0%	14.7%	5.9	4.7	4.1	3.4	1.6	1.0	8.5	21.2	16.0	9.5	5.9	0.4
Banks	19.2%	23.1%	30.2%	37.1%	8.6	7.1	6.7	5.3	4.0	1.6	6.1	19.1	34.3	23.5	17.2	12.7
Capital Goods	2.8%	15.5%	23.4%	20.6%	8.1	6.9	6.5	5.8	5.2	1.0	7.9	17.6	35.5	17.2	32.8	0.2
Commercial Services & Supplies	0.3%	0.1%	9.2%	14.9%	3.4	2.9	2.4	2.2	1.4	0.5	13.1	17.4	30.5	11.8	11.3	-
Consumer Durables & Apparel	0.8%	7.3%	10.2%	6.1%	8.5	7.9	5.7	4.4	3.0	1.7	5.5	18.9	9.6	4.9	3.3	0.7
Consumer Services	0.4%	16.6%	-7.5%	13.8%	2.6	2.4	2.3	2.1	-	0.6	-	21.9	94.1	63.1	65.3	-1
Diversified Financials	2.8%	21.1%	3.0%	29.9%	7.2	15.1	9.2	8.0	6.4	0.9	6.6	7.9	51.9	48.5	41.0	-0.6
Energy	3.8%	16.1%	12.4%	19.5%	6.1	6.0	5.3	5.3	4.1	1.3	5.5	20.9	17.8	12.4	8.8	0.9
Food & Staples Retailing	0.1%	0.7%	13.2%	10.1%	4.4	4.4	4.4	4.3	4.1	0.7	-	14.9	16.5	8.0	4.8	0.9
Food, Beverage & Tobacco	27.1%	10.9%	7.7%	18.7%	11.6	10.0	8.3	6.5	4.3	3.6	4.0	33.6	30.3	18.1	15.8	-0.1
Health Care Equipment & Services	0.1%	11.8%	21.3%	16.4%	-	-	-	-	-	-	-	-	-	-	-	-
Household & Personal Products	0.4%	6.0%	6.7%	15.5%	7.4	7.2	6.4	5.8	4.0	0.5	3.0	6.8	22.7	8.7	4.4	0.5
Insurance	9.3%	10.0%	44.1%	42.2%	7.8	6.0	5.3	5.2	4.5	0.8	3.6	11.7	39.1	7.1	28.2	-1.1
Materials	6.1%	19.9%	12.0%	28.3%	4.7	4.5	3.7	3.4	2.9	1.2	8.0	26.2	31.5	24.9	21.8	-
Pharmaceuticals & Biotechnology	1.9%	3.3%	1.9%	6.5%	7.8	7.4	5.9	4.7	3.8	2.4	5.1	28.2	44.1	18.1	15.9	-0.1
Real Estate	17.1%	13.8%	2.5%	13.8%	13.5	6.9	5.2	4.8	3.6	1.3	6.5	18.8	44.8	37.8	37.3	0.7
Retailing	0.8%	-6.0%	-4.4%	-4.8%	4.8	3.9	3.5	3.4	4.1	0.6	9.8	15.0	10.8	6.8	5.5	0.5
Software & Services	0.3%	-6.6%	7.0%	-9.3%	3.9	4.2	4.1	3.7	3.2	1.3	12.8	27.1	21.2	12.9	10.4	-0.5
Telecommunication Services	2.6%	12.4%	12.2%	11.5%	6.7	5.8	5.2	4.5	3.7	2.1	2.7	30.3	19.8	10.0	6.1	0.4
Transportation	1.6%	12.2%	5.5%	13.8%	3.0	2.3	2.0	1.9	1.7	0.7	13.2	27.1	29.3	25.0	22.1	-0.2
Utilities	1.5%	18.6%	7.8%	18.9%	6.7	6.0	5.6	5.2	5.1	0.8	15.5	13.4	54.6	51.6	60.1	-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

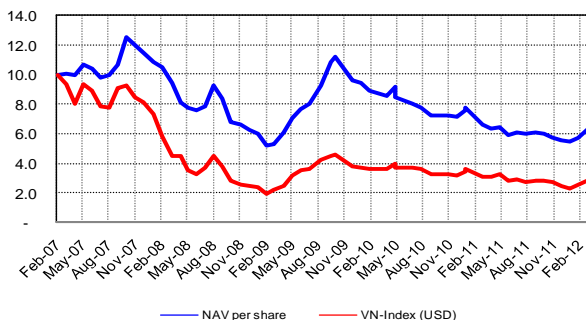
## Vietnam Emerging Market Fund (VEMF)

NAV per share	US\$6.28
Feb-12	8.7%
YTD	14.8%
Since inception (Feb 07)	-37.2%
Reuters	65092798
Bloomberg	VAMVEMF KY Equity
ISIN	KYG 936131005
CUSIP	G93613100

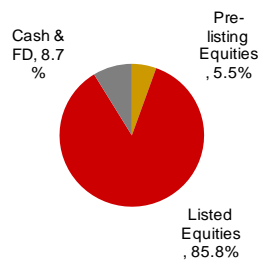
VEMF is a Cayman open-end fund with monthly liquidity for offshore investors. The Fund invests in private equities, privatization, OTC and listed stocks in Vietnam on an actively-managed basis.

As at end February, the Fund's NAV per share was US\$6.28. With a 8.65% MoM increase, the Fund continued to lead the VN-Index (in US\$), recording outperformance of 34.32% since inception.

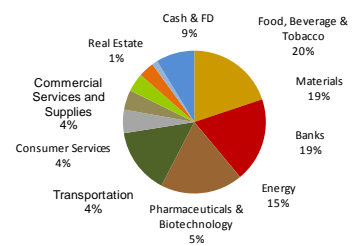
### Performance vs. VN-Index (US\$)



### Fund Breakdown



### Sector Breakdown



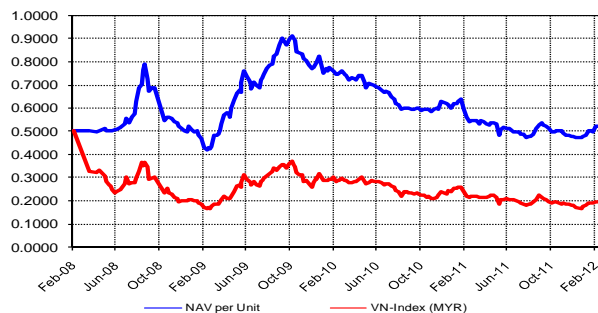
## Hong Leong Vietnam Fund (HLGVF)

NAV per unit	RM 0.5235
	US\$ 0.1750
Feb-12	8.47%
YTD	10.62%
Since inception (Feb08)	4.7%
Bloomberg	HLGVIET.MK

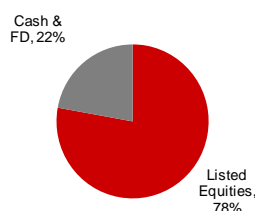
HLGVF is an actively-managed open-end unit trust for Malaysian high-net-worth investors. The Fund invests in OTC, pre-listing and listed stocks in Vietnam.

As at end February, the Fund's NAV per unit was RM0.5235. With a 8.47% MoM increase, the Fund continued to lead the VN-Index (in MYR), recording outperformance of 66.12% since inception.

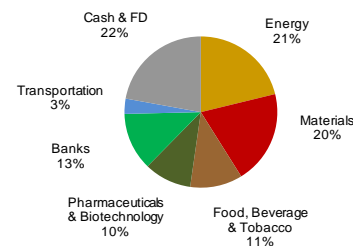
### Performance vs. VN-Index (MYR)



### Fund Breakdown



### Sector Breakdown



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

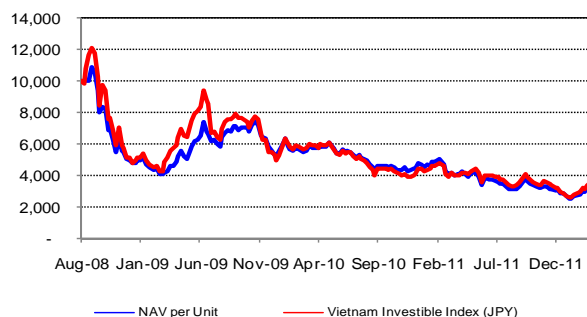
NAV per unit	JPY 3,301
	US\$ 40.78
Feb-12	24.8%
YTD	25.7%
Since inception (Jul08)	-67.0%
Bloomberg	VAMINLI KY Equity

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.

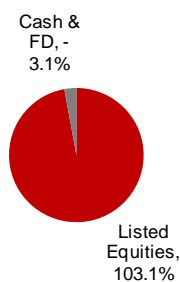
The Fund's NAV per unit increased 24.8% MoM to close at JPY 3,301 on 29 February 2012.

As of 18 Jan '12

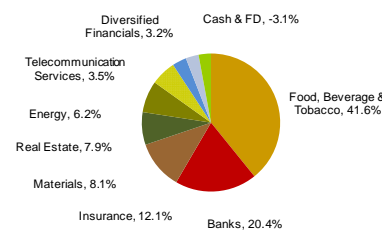
### Performance vs. VII (JPY)



### Fund Breakdown



### Sector Breakdown



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