

## Market Update

### Markets all declined for the month

In July, the benchmark VN-Index lost 1.87%, to close at 414.48. The HNX declined 3.86% to 69.19, while the VN-30 closed at 491.98, down 1.16%.

### 1H earnings disappointment applies pressure on the market and interest rates

Though the market initially rallied on impressive preliminary earnings releases, sentiment notably changed as further reports showed that 1H earnings were in fact rather poor. From 405.39 in early July, the VN-Index began a rally that added 27 points in just 10 days. On the 20<sup>th</sup> of the month however, the market began an abrupt turnabout, fueled in part by sellers rushing to take profits upon the release of negative CPI figures, which they took as a sign of decreasing aggregate demand and slowing economic activity.

Most listed companies have announced their 1H earnings by now. The Capital Goods sector's profits benefited from increased efficiencies with lower input costs while the Transportation sector posted some of the lowest earnings growth figures as their margins continue to suffer with high fixed costs and the general economic slowdown. The Real Estate sector continues to grapple with slow sales, thus its 1H profits were disappointing. Banks in general showed weak earnings due to low credit growth, falling interest rates which resulted in lower interest income, and increased NPL provisions. Because of 1H weak earnings and low GDP growth, the SBV has determined to stimulate economic expansion through the availability and affordability of credit, urging banks to lower interest rates and make available credit at 15% p.a. or lower. Most state owned banks complied with the 15% rate "guideline" across their outstanding loans; however private sector banks estimate that only 30-50% of their client accounts qualify.

### Credit growth is likely to miss its target

In 2012's remaining 6 months, the SBV will try

to reach its 8-10% credit growth target; however it also admitted this is unlikely as January – July credit growth was recorded at just 0.76%. High interest rates, low production demand, in addition to low domestic and international consumption have left businesses with sizeable inventories. These factors combined have caused demand for credit to be very weak. Credit is also expected to remain weak as long as NPLs remain high, at 8.6% of total outstanding loans as of March 31, as per new SBV's estimates.

### Retail sales and Industrial production continue to grow, albeit slower

Retail sales edged up an estimated 0.12% MoM and 18.74% YTD, to an estimated USD 63.55 billion for 2012. As the largest sector based on sales, the commercial sector had revenue of approximately USD 7 billion. Over the same period, 2011's Retail sales figures fared better at 22.3% growth. Industrial Production index also accelerated in July, increasing 6.1% from June. When compared to the same January – July period of 2011, the IP Index increased 4.8%. The Mining industry posted the largest gain, with a 9.4% increase on month, while the Processing industry posted a 4.2% increase. Production numbers are however at odds with an HSBC report indicating that the PMI survey had fallen 6.8% MoM, indicating softer demand and lower production levels.

### 2<sup>nd</sup> straight month of negative inflation

June's 0.26% decline in CPI was followed by a 0.29% decline in July, bringing the total increase in the inflation index to 2.22% YTD and 5.35% YoY. Dropping petroleum prices caused the Transportation sector to see the largest decline at 2.71%. This however is unlikely to continue as a price hike is expected in the coming days. Medicine & Health Care meanwhile saw the largest price rise of 3.36%, due to a Health Care price adjustment to comply with an MOF circular. A recent ANZ report forecasts that inflation will range between 6-7% by year-end. Inflation is expected to accelerate beginning in September as

seasonal pricing on items such as school fees starts. Any additional quantitative easing in the US is also expected to accelerate inflation in Vietnam and elsewhere.

### Trade Balance helped by FDI despite decline

FDI disbursements in the first 7 months of 2012 reached USD 6.25 billion, a slight decline of 0.8% over the same period 2011, while registered FDI's decline was 33% over the same 7-month period, totaling USD 8 billion. Manufacturing and Real Estate drew the most capital, so did small and medium sized projects. With exports being a major driver for FDI, Foreign Invested Enterprises exports generated an estimated USD 39 billion, a 36.6% increase over 2011 and helped contribute to July's USD 100 million surplus. The YTD trade deficit is USD 58 million, much improved over the USD 5.8 billion recorded in the same period last year.

### New listing requirements for HSX and HNX

With the recently released Decree 58, the minimum charter capital for listing on the HSX and HNX has been raised to VND 120 billion (from VND 80 billion) and VND 30 billion (from VND 10 billion) respectively. Approximately 165 presently listed companies fall short of this requirement, yet they will be grandfathered in. Decree 58 also permits foreign investors that meet certain clauses to own 100% of a securities' company's chartered capital, thereby increasing competition.

### Our view

With poor 1H corporate earnings, slowing economic growth and uncertainties in the banking sector at the background, we believe the market will continue to move sideways for the time being. We take this opportunity to screen our stock universe for resilient companies with little or no debt, good cash flow and prudent management. We are watching the market very closely for good entry points to come back to the market, as valuations of certain companies and sectors have become quite attractive.



## Sector valuation

Industry group	Weight %	1M %	3M %	YTD %	2011 PE	2012 PE	2013 PE	2014 PE	2017 PE	P/B	Dvd Yield	ROE	Gross Margin	Op Margin	Net Margin	Net D/E
Vietnam Market	100.0%	-1.4%	-8.1%	28.8%	11.7	9.9	8.7	9.0	6.6	2.0	4.7	18.0	30.9	16.9	13.3	5.53
Automobiles & Components	0.8%	-3.2%	-16.3%	34.3%	14.1	7.6	8.8	22.7	4.1	1.6	6.2	25.1	18.1	11.8	7.8	0.7
Banks	32.4%	-1.1%	-3.8%	47.2%	10.4	10.6	9.2	9.4	8.0	1.7	4.9	12.1	37.5	14.9	10.7	13.3
Capital Goods	2.6%	-1.9%	-14.8%	40.5%	7.9	8.0	8.8	8.1	11.1	1.2	7.2	16.4	34.7	16.4	27.7	0.4
Commercial Services & Supplies	0.2%	-2.3%	-4.0%	25.0%	6.3	3.8	4.5	4.5	4.3	0.8	10.1	-9.3	24.4	10.2	8.0	-
Consumer Durables & Apparel	0.5%	-6.3%	-8.2%	9.9%	9.2	7.0	4.7	3.7	2.6	1.8	5.5	24.4	10.3	5.7	3.8	0.7
Consumer Services	0.3%	-3.8%	-5.7%	27.2%	12.8	8.8	8.1	7.5	6.4	1.3	-	19.1	59.1	33.1	31.1	-0.3
Diversified Financials	2.6%	2.2%	-8.4%	60.2%	8.0	17.3	10.5	9.2	7.3	1.0	5.9	7.9	51.1	47.5	39.5	-0.5
Energy	12.8%	1.2%	-3.8%	25.7%	11.2	9.7	8.2	6.3	4.8	2.8	3.6	25.9	17.3	12.8	9.3	0.1
Food & Staples Retailing	0.1%	-6.3%	-1.0%	35.2%	-	-	-	-	-	-	-	-	-	-	-	-
Food, Beverage & Tobacco	17.4%	-1.9%	-5.2%	14.1%	11.5	10.1	8.5	6.8	4.3	3.5	3.7	29.9	30.6	17.7	15.7	-0.2
Health Care Equipment & Services	0.1%	-5.1%	-31.4%	10.7%	-	-	-	-	-	-	-	-	-	-	-	-
Household & Personal Products	0.3%	-3.9%	-10.6%	27.0%	8.2	3.4	5.0	4.1	3.0	0.6	2.7	20.4	26.4	13.2	10.4	-0.1
Insurance	5.8%	-5.1%	-31.4%	19.5%	6.9	5.5	4.9	4.8	4.2	0.7	4.2	11.6	37.8	6.9	28.2	-1.1
Materials	5.0%	1.4%	-5.2%	45.1%	5.3	4.3	3.8	3.6	3.5	1.3	6.5	29.1	28.3	22.6	20.3	-
Pharmaceuticals & Biotechnology	1.2%	0.5%	2.7%	11.6%	9.9	8.2	7.2	6.5	5.1	2.2	4.3	24.6	42.5	16.9	15.5	-0.1
Real Estate	12.7%	-4.1%	-19.1%	-1.6%	16.9	15.9	14.7	31.4	15.3	1.2	5.9	6.3	37.8	30.0	15.5	1.2
Retailing	0.4%	1.9%	-6.3%	-3.8%	4.1	5.0	8.5	7.8	6.7	0.7	9.9	13.0	7.8	4.1	-4.2	0.8
Software & Services	0.2%	-1.0%	-11.9%	-9.9%	5.0	6.1	5.8	4.8	4.3	0.9	15.3	12.4	21.8	12.5	9.1	-0.3
Telecommunication Services	2.1%	2.8%	3.3%	24.0%	8.2	6.5	5.7	5.2	4.1	2.3	3.1	30.3	19.1	9.8	6.7	0.2
Transportation	1.3%	-5.1%	-10.1%	23.7%	155.0	12.4	29.1	8.8	5.2	0.8	4.6	14.5	21.8	15.1	10.7	0.6
Utilities	1.2%	-1.2%	-3.5%	38.4%	7.0	6.2	5.9	5.8	5.7	0.8	14.9	14.0	51.6	48.6	53.7	0.2

\* 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

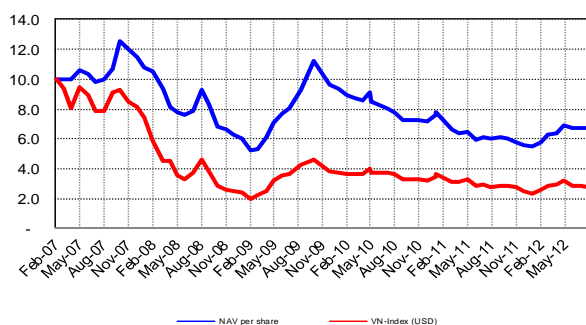
## Vietnam Emerging Market Fund (VEMF)

NAV per share	US\$6.71
Jul-12	0.0%
YTD	22.7%
Since inception (Feb 07)	-32.9%
Reuters	65092798
Bloomberg	VAMVEMF KY Equity
ISIN	KYG 936131005
CUSIP	G93613100

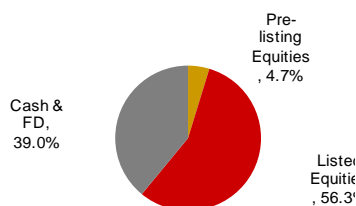
VEMF is a Cayman open-end fund with monthly liquidity for offshore investors. The Fund invests in private equities, privatization, OTC and listed stocks in Vietnam on an actively-managed basis.

As at end July, the Fund's NAV per share was US\$6.71. The Fund was up 22.67% YTD and continued to lead the VN-Index (in US\$), recording outperformance of 1.7% MoM, 3.84% YTD and 39.28% since inception.

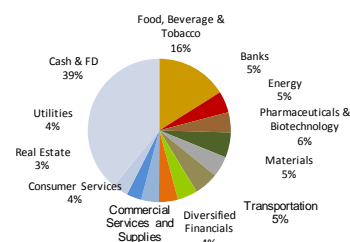
### Performance vs. VN-Index (US\$)



### Fund Breakdown



### Sector Breakdown

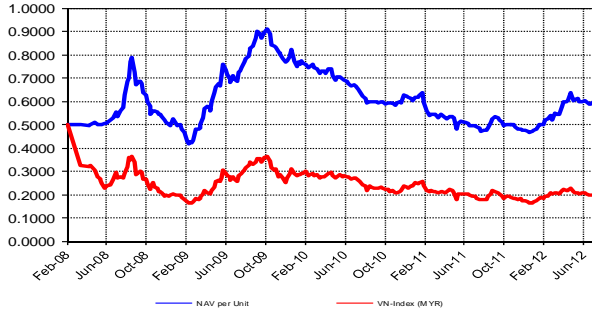


## Hong Leong Vietnam Fund (HLGVF)

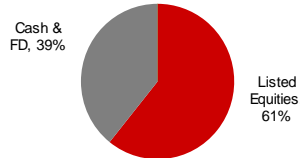
NAV per unit	RM 0.5972
	US\$ 0.1872
Jul-12	-0.06%
YTD	26.19%
Since inception (Feb08)	19.4%
Bloomberg	HLGVIET.MK

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 RM0.5972. Despite a 0.06% MoM decrease the Fund was still up 26.19% YTD and 19.43% since inception, the Fund continued to lead the VN-Index (in MYR), recording outperformance of 1.81% MoM, 7.19% YTD, and 79.41% since inception.

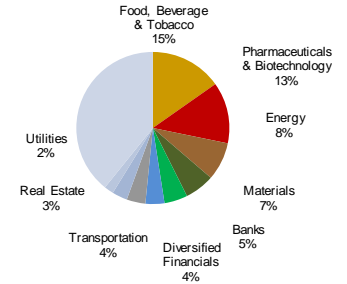
### Performance vs. VN-Index (MYR)



### Fund Breakdown



### Sector Breakdown



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

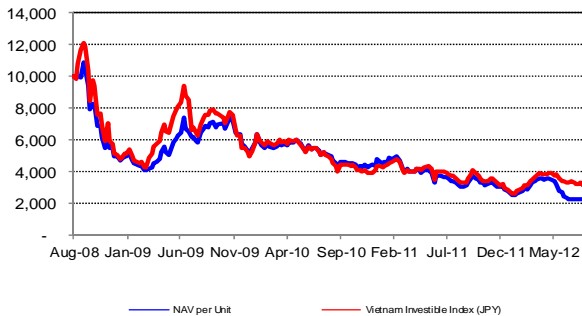
NAV per unit	JPY 2,441
	US\$ 31.47
Jul-12	7.3%
YTD	-7.1%
Since inception (Jul08)	-75.6%
Bloomberg	VAMINLI KY Equity

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.

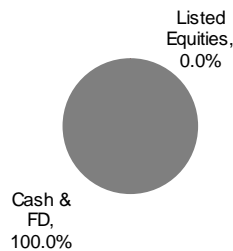
The Fund's NAV per unit increased 7.3% MoM to close at JPY 2,441 on 30 Jul 2012.

As of 30 Jul '12

### Performance vs. VII (JPY)



### Fund Breakdown



### Sector Breakdown



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