

Market Update

Another month of closing down for both markets

In June, the VN- index lost 1.6% to close at 422.37. The HNX declined 4% to 71.07, while the VN-30 broke below the 500 threshold to close at 497.73, down 1.85%. Liquidity also dropped with average daily trading value recorded at USD 73 mn versus USD 99 mn of May. Foreign investors turned net sellers with net selling value of USD 25 mn for the month.

CPI and Trade balance improved

Unseen since March 2009, CPI decreased 0.26% in June, bringing YoY and YTD inflation to 6.9% and 2.52%, respectively. 5 of the 11 commodity and services items in the CPI basket decreased, including Food & Foodstuff which make up nearly 40% of the total basket. Serving to keep inflation low was 2 reductions in the retail price of petrol (another reduction is forthcoming in early July). The World Bank has recently revised downward its official 2012 CPI forecast for Vietnam to 9.5%, while JP Morgan predicts inflation will top out at 8.1%. Also improved was the nation's trade account. With June's trade deficit at USD 150mn, 1H trade balance came to a deficit of USD 357mn - significantly improved over the USD 6.5bn deficit in the same period of 2011. For 1H, Exports grew 22% YoY while Imports increased at 6.9%.

Disbursed FDI slightly improves, while committed FDI disappoints

Committed FDI disappointed in 1H, decreasing 27.3% to USD 6.4 bn, down from the USD 8.8 bn recorded in 1H 2011. However, disbursed FDI increased 1.9% to reach USD

5.4 bn, notably better than the 1.9% decrease recorded in the same period in 2011. Japanese investors continue to be the largest contributor with 65% of the nation's total FDI.

Retail Sales continues growth albeit at a slower pace

Retail sales in 1H also disappointed, growing 6.5% in real terms (19.5% in nominal terms) to approximately USD 54.6bn. While retail sales growth remains positive, it is lower than the 9.2% recorded in 1H 2011. High interest rates and stagnant production were to blame for declining YoY sale.

Lower remittances pressure the dong

Inward remittances to HCMC in 1H totaled about USD 1.9bn, 20.8% lower from the same period in 2011. With a dormant property market and the global economic slowdown, remittances are down nearly USD 500mn. In 2011, the 9bn dollar remittances were major contributor to the USD 2.5bn BOP surplus. Lower remittances have put some pressure on the currency. During the month, there was time when the dong traded as low as VND 21,036 per USD. The dong has since regained ground and the central bank reference rate continues to be VND 20,828, unchanged since December 2011.

As economy slows, further stimulus announced

While Q2 GDP growth bettered Q1 growth at 4.66% and 4% respectively, the annual 6-6.5% growth target appeared unlikely to be achieved and accordingly, was reduced to 6%. With weak Q2 earnings outlook and credit growth likely to only reach 12-13%, missing the 15-17% growth target, parts of a VND 29 trillion fiscal stimulus package in

Circular 21 were enacted. Stimulus measures include a 30% reduction in the corporate income tax for SMEs; a 6 month tax exemptions for individuals earning less than VND 9 million per month; dividend tax exemption, and a 50% reduction on securities sales tax. In addition, the refinance and discount rates were each reduced by 100bp to 10% and 8% respectively. The deposit rate cap for deposits greater than 12 months was lifted, and is now 9% for deposits under 12 months. Additionally, in an effort to boost GDP and revitalize the Property sector, an un-utilized fund of VND 120 trillion in public investments is also being disbursed. Moreover, the Property sector was also given 'preferred group' status, thereby giving them much needed access to lower cost borrowing.

Our view

With some improvements and some weakening in the macro picture, on a net basis overall, we don't think much progress has been made since last month. The stock market reflected that with a 1.6% fall to end the month of June at an almost 3-month low.

On the corporate front, the situation looks bleak with PMI (published by HSBC) down to 46.6 from 48.3 in May. What is more troubling is that output prices declined sharply while finished goods inventories have increased. This shows that despite falling prices, demand is still very weak and the inventory clearance process might take longer than we thought.

We therefore remain cautious on the market and will prefer to stick to defensive plays and domestic-oriented companies with strong cash flow, solid financials, strong growth prospect, and good corporate governance and cheap valuation.



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%	-1.1%	-0.3%	30.2%	11.8	10.2	8.5	8.8	6.4	2.0	4.6	17.8	30.5	16.6	13.2	5.53
Automobiles & Components	0.9%	-4.9%	9.0%	38.7%	13.5	8.6	7.4	15.9	3.9	1.6	6.4	22.2	17.2	11.1	7.2	0.7
Banks	31.8%	0.7%	3.6%	48.9%	10.5	11.3	8.8	9.0	7.6	1.7	4.8	11.6	36.6	14.3	10.4	13.3
Capital Goods	2.7%	-1.1%	3.4%	43.2%	10.0	9.5	9.7	8.8	7.6	1.1	7.5	16.6	35.3	16.9	28.3	0.4
Commercial Services & Supplies	0.2%	-5.1%	1.4%	28.0%	5.1	4.0	3.5	3.3	2.6	0.8	10.1	-9.8	24.0	9.8	8.1	-
Consumer Durables & Apparel	0.5%	5.1%	12.8%	17.3%	9.7	7.8	5.1	4.0	2.9	1.9	5.3	21.8	9.8	5.2	3.2	0.9
Consumer Services	0.3%	2.0%	6.8%	32.2%	7.0	6.5	6.1	5.7	4.4	1.1	-	18.1	61.4	35.4	32.9	-0.2
Diversified Financials	2.7%	-3.9%	4.3%	56.7%	7.5	16.8	10.2	9.0	7.1	1.0	6.2	7.9	51.1	47.5	39.5	-0.5
Energy	12.7%	1.9%	4.2%	24.2%	11.0	9.6	8.1	6.3	4.7	2.7	3.6	25.9	16.9	12.5	9.1	0.1
Food & Staples Retailing	0.1%	7.6%	27.4%	44.3%	-	-	-	-	-	-	-	-	-	-	-	-
Food, Beverage & Tobacco	16.6%	2.1%	-4.2%	16.3%	11.4	10.0	8.3	6.7	4.2	3.4	3.7	29.9	30.6	17.7	15.7	-0.2
Health Care Equipment & Services	0.1%	-16.6%	-29.0%	16.6%	-	-	-	-	-	-	-	-	-	-	-	-
Household & Personal Products	0.3%	-3.2%	10.8%	32.1%	7.7	3.9	6.1	5.1	3.6	0.8	2.5	20.1	27.4	13.1	10.9	-0.1
Insurance	6.5%	-2.0%	-29.3%	25.9%	6.9	5.4	4.8	4.8	4.2	0.7	4.1	11.6	37.8	6.9	28.2	-1.1
Materials	4.9%	-0.6%	12.7%	43.1%	5.1	4.3	3.7	3.5	3.4	1.3	6.7	28.9	28.3	22.6	20.2	-
Pharmaceuticals & Biotechnology	1.1%	5.0%	4.1%	11.1%	8.5	7.5	6.5	5.7	5.2	2.2	4.3	25.6	43.8	17.4	15.5	-0.2
Real Estate	13.6%	-11.0%	-4.8%	2.6%	16.7	15.8	14.6	31.3	15.3	1.2	5.9	6.3	37.8	30.0	15.5	1.2
Retailing	0.4%	-2.2%	0.8%	-5.6%	4.4	5.5	4.2	4.4	4.1	0.6	10.1	11.6	9.1	5.4	4.1	0.5
Software & Services	0.2%	-5.9%	-9.1%	-9.0%	5.2	6.1	5.8	4.7	4.1	0.9	15.5	12.7	21.4	12.8	9.7	-0.4
Telecommunication Services	2.0%	-3.4%	3.7%	20.6%	8.1	6.3	5.7	5.0	4.0	2.2	3.2	31.4	19.3	9.9	6.9	0.2
Transportation	1.3%	-0.5%	4.4%	30.3%	172.5	13.5	32.3	9.6	5.7	0.8	4.6	15.4	22.1	15.4	11.0	0.7
Utilities	1.2%	-5.3%	6.3%	40.1%	7.2	6.2	5.9	5.8	5.9	0.8	14.8	14.2	52.5	49.5	54.6	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

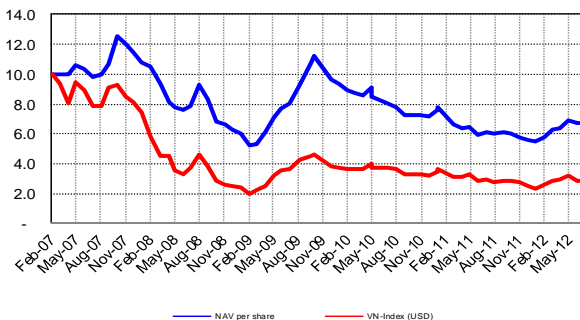
Vietnam Emerging Market Fund (VEMF)

NAV per share	US\$6.71
Jun-12	-0.6%
YTD	22.7%
Since inception (Feb 07)	-32.9%
Reuters	65092798
Bloomberg	VAMVEMF KY Equity
ISIN	KYG 936131005
CUSIP	G93613100

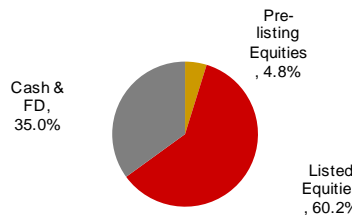
VEMF is a Cayman open-end fund with monthly liquidity for offshore investors. The Fund invests in private equities, privatization, OTC and listed stocks in Vietnam on an actively-managed basis.

As at end June, the Fund's NAV per share was US\$6.71. Despite a 0.59% MoM decrease, the Fund was up 22.67% YTD and continued to lead the VN-Index (in US\$), recording outperformance of 1.16% MoM, 1.79% YTD and 38.80% since inception.

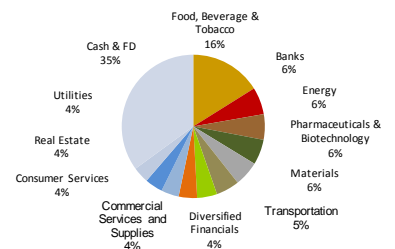
Performance vs. VN-Index (US\$)



Fund Breakdown



Sector Breakdown

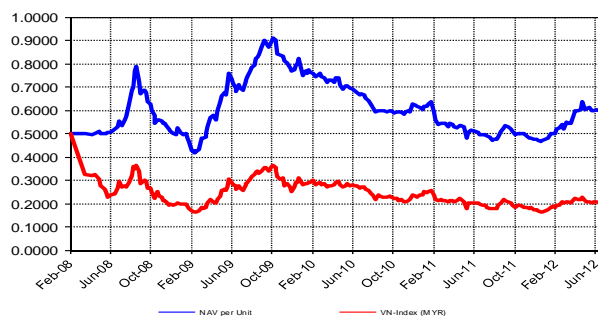


Hong Leong Vietnam Fund (HLGVF)

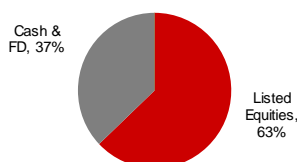
NAV per unit	RM 0.5975
	US\$ 0.1871
Jun-12	-2.46%
YTD	26.26%
Since inception (Feb08)	19.5%
Bloomberg	HLGVIET:MK

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 Jun, the Fund's NAV per unit was RM0.5975. Despite a 2.46% MoM decrease the Fund was still up 26.26% YTD and 19.50% since inception, the Fund continued to lead the VN-Index (in MYR), recording outperformance of 5% YTD, and 78.72% since inception.

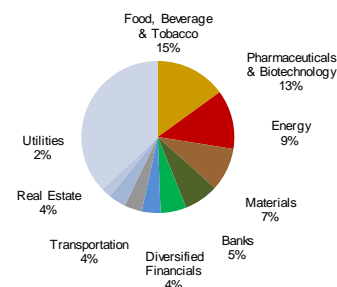
Performance vs. VN-Index (MYR)



Fund Breakdown



Sector Breakdown



HS-VAM Vietnam Index Linked Fund (VILF)

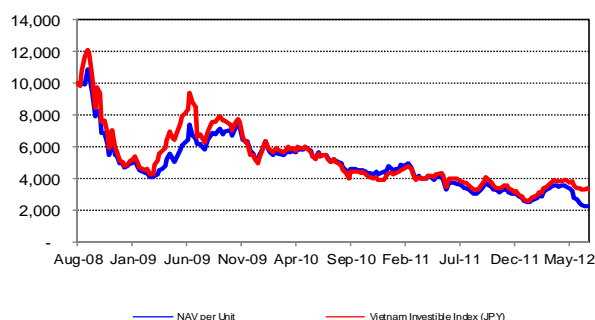
NAV per unit	JPY 2,274
	US\$ 28.51
Jun-12	-7.9%
YTD	-13.4%
Since inception (Jul08)	-77.3%
Bloomberg	VAMINLI KY Equity

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.

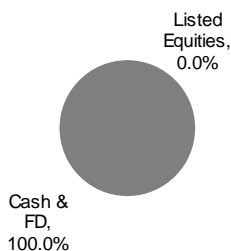
The Fund's NAV per unit decreased 7.9% MoM to close at JPY 2,274 on 29 Jun 2012.

As of 27 Jun '12

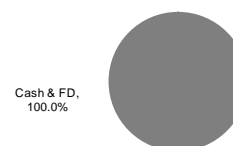
Performance vs. VII (JPY)



Fund Breakdown



Sector Breakdown



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