31 May '12

Market Update

Both markets ended lower on month

Both markets and all three indices had a disappointing month. The VN-Index lost 9.3%, closing at 429.20, while the HNX lost 7.3%, closing at 74.07. The VN-30 closed at 507.07, dropping 6.3% for the month. After being net sellers in April, foreign investors turned net buyers in May, though net buying value for the whole month is much lower than those recorded in February and March this year.

CPI continues trending downward while retail sales continue to grow, though at slower pace

May's CPI increased 0.18%, bringing YTD and YoY inflation to 2.78% and 8.34% respectively. Vietnam's Prime Minister stated that he expects inflation to be kept at 8% for 2012, down from the World Bank's original 10.5% forecast. Food & food services, which account for 40% of the CPI basket, decreased 0.14% on month. While inflation continues to decelerate, retail sales from January – May of this year grew at 20.8% to approximately USD 45.6 billion, down from the 22.5% and 26.9% recorded in the same period in 2011 and 2010 respectively.

Interest rates reduced as GDP growth slows

In May, the refinancing and discount rates as well as the deposit rate cap were all reduced by 100bp to 12%, 10% and 11% respectively. Despite previous similar cuts made in March and April this year, total credit in the system declined 0.89% in the first 5 months of 2012. A recent HSBC credit report forecasted credit growth of only 13% in 2012 due to dampening domestic demand. Weakening demands also contributed to the Prime Minister's stating recently that GDP expansion will likely range from 5.6% - 5.8% for the year; down from an initial 6% GDP growth forecast. Recent World Bank's estimates place GDP growth at 5.7% for the year, and 6.3% for 2013.

NPL figures differ, yet appear to be rising

A report from Vietnam Center for Economics and Policy Research stated NPLs in the banking system range between 8.25% -14.01% (not including Vinashin's debt). Fitch Ratings estimates bad debt to be at 13%. SBV figures are rather dissimilar, stating bad debts have risen from 3.2 to 3.6% of the banking system as a whole. Interestingly, the SBV Governor is considering to relax the 20% foreign investor participation limit in bank equity.

Trade balance returns to a deficit position; disbursed FDI decreases slightly YoY

January to May trade figures show a deficit of USD 622 million, wiping away the trade surplus recorded in the first 4 months. May's trade deficit reached USD 700 million with exports and imports reaching USD 9.1 and USD 9.8 billion respectively. Commodity exports saw a USD 40 million reduction for the month, while imported items such as garments and shoes increased USD 38 million on month. For the first 5 months, committed FDI increased 31.8% YoY to USD 5.32 billion. FDI disbursements however, decreased slightly, down 0.2% YoY with USD 4.51 billion disbursed year to date.

Vietnam earns a stable outlook rating with B+ from Fitch

Fitch Ratings gave Vietnam a Stable outlook rating based on the success of its macroeconomic policies, positively affirming the reforms rolled out to state-owned banks. Fitch also scored Vietnam a B+ in the Foreign and Local Currency Issue Default category as the official exchange rate remains effectively unchanged in 2012. The dong, however, is showing some slight weakness in the black market, trading at VND 20,870 per USD at month end. Recent volatility in the gold market has put the dong under minor downward pressure.

Our view

The macro landscape is showing noticeable improvements, with abating inflation, improving trade balance, stable currency and declining interest rates being the most apparent positives. It appears that some growth will be sacrificed this year as we were off to a rough start, but the recent macro improvements have lent people reasons to hope for a full recovery in both the economy and the stock market. Looking deeper, nonetheless, we see that difficulties remain in the banking and real estate sectors. Banks are having trouble lending out money, despite the Government's effort in bringing down lending rates. Credit growth has been very sluggish due to credit risk fears by banks, which already have too much NPLs, and which are under a lot of internal pressure not to add new NPLs to their books. In addition, the list of creditworthy customers is short, and these may not want or need to borrow in this time. The real estate market is affected by credit growth and is expected to remain in doldrums for another year or so. Industry consolidation is the most often heard buzzword these days across different industries, but is expected to occur with loudest impact in financials and real estate sectors. We therefore remain cautious on the market and will look for cues from pick-ups in credit growth and real estate stock clearance, amongst other signs, before being convinced of a well-founded market turnaround. In the meantime, we tend to prefer defensive plays and domestic-oriented companies with strong fundamentals and good corporate governance. But we think the current market valuation is attractive for the long-term investors, and we will continue to look for stocks that fit our investment criteria, including strong cash flow, solid financials, good growth prospect, cheap valuation, and savvy management with integrity.

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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%	-3.8%	10.6%	32.8%	10.6	9.3	8.3	6.9	5.3	2.0	5.1	20.6	33.7	22.1	19.2	4.06
Automobiles & Components	1.0%	6.7%	42.0%	57.1%	13.1	9.2	6.6	5.7	3.3	1.9	4.8	21.0	16.3	10.1	6.0	0.6
Banks	22.3%	-1.1%	20.0%	50.5%	10.3	9.0	9.8	7.7	6.2	1.8	5.2	17.2	35.3	22.2	16.1	11.9
Capital Goods	3.2%	-2.5%	31.8%	51.6%	8.1	8.6	10.2	9.3	8.7	1.5	6.4	17.8	36.8	17.1	36.8	0.2
Commercial Services & Supplies	0.2%	-1.4%	16.2%	30.2%	4.7	4.1	3.6	3.4	1.6	0.7	11.6	17.2	30.1	11.6	11.4	-
Consumer Durables & Apparel	0.7%	-3.5%	15.0%	12.5%	8.9	8.2	6.0	4.7	3.1	1.7	5.3	18.6	9.7	4.9	3.4	0.8
Consumer Services	0.4%	0.6%	19.4%	29.2%	8.4	8.0	7.5	7.1	-	0.6	-	10.3	71.6	34.7	34.3	-0.1
Diversified Financials	3.5%	-2.9%	39.0%	64.6%	10.0	19.0	11.7	10.3	8.4	1.2	5.1	7.8	50.8	47.3	40.0	-0.5
Energy	3.6%	0.3%	13.8%	28.9%	6.1	5.9	5.3	5.1	3.9	1.3	5.1	21.6	17.5	12.2	8.8	0.9
Food & Staples Retailing	0.1%	5.1%	27.4%	38.0%	4.9	5.6	4.1	3.9	3.3	0.6	-	10.9	14.7	5.5	3.0	1.1
Food, Beverage & Tobacco	24.3%	-5.5%	0.8%	16.0%	12.2	10.5	8.7	6.8	4.3	3.7	3.5	33.5	31.3	18.2	15.9	-0.2
Health Care Equipment & Services	0.1%	-6.3%	40.6%	48.0%	-	-	-	-	-	-	-	-	-	-	-	-
Household & Personal Products	0.3%	3.1%	20.0%	36.1%	10.8	10.4	8.8	7.7	5.2	0.7	2.5	6.6	23.8	9.8	4.5	0.6
Insurance	10.6%	-19.2%	-1.4%	45.0%	7.6	6.0	5.3	5.2	4.6	0.8	3.7	11.7	38.2	6.9	28.0	-1.1
Materials	6.2%	3.0%	19.5%	43.1%	5.6	5.4	4.3	3.7	3.2	1.4	6.8	25.8	29.7	23.3	20.3	0.1
Pharmaceuticals & Biotechnology	1.6%	0.2%	0.0%	8.6%	8.2	7.7	6.0	4.9	3.8	2.6	5.0	29.0	44.1	17.9	15.8	-0.1
Real Estate	15.2%	-2.7%	-0.7%	13.9%	21.6	13.2	9.6	9.1	6.1	1.1	6.3	9.5	42.5	33.7	27.0	1
Retailing	0.6%	-0.8%	1.8%	-3.3%	4.8	4.2	3.7	3.7	4.8	0.7	8.1	15.8	9.6	5.5	4.4	0.5
Software & Services	0.3%	0.4%	10.3%	5.4%	4.3	4.6	4.5	4.1	3.4	1.4	11.7	27.0	21.2	12.8	10.4	-0.5
Telecommunication Services	2.4%	7.6%	16.3%	27.4%	7.6	6.6	5.8	5.1	4.2	2.3	2.4	30.3	19.8	10.0	6.1	0.4
Transportation	1.6%	-1.3%	22.8%	31.4%	3.6	2.5	2.2	2.0	1.8	0.7	12.4	24.1	26.1	21.6	19.1	0.2
Utilities	1.5%	3.1%	31.3%	48.0%	8.1	7.1	6.6	6.2	6.0	0.9	12.5	13.7	54.5	51.6	60.8	-

** 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*

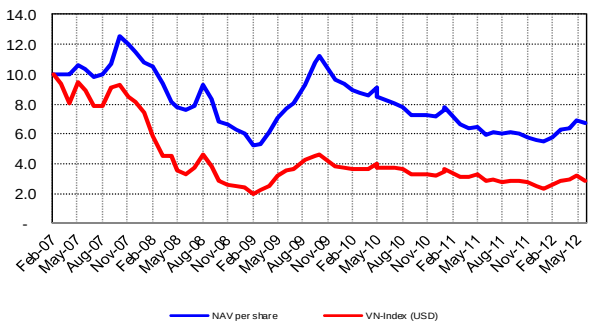
Vietnam Emerging Market Fund (VEMF)

NAV per share	US$6.75
May-12	-2.6%
YTD	23.4%
Since inception (Feb 07)	-32.5%
Reuters	65092798
Bloomberg	VAMVEMF KY Equity
ISIN	KYG 936131005
CUSIP	G93613100

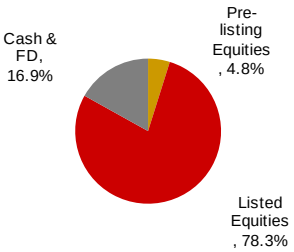
VEMF is a Cayman open-end fund with monthly liquidity for offshore investors. The Fund invests in private equities, privatization, OTC and listed stocks in Vietnam on an actively-managed basis.

As at end May, the Fund's NAV per share was US$6.75. Despite a 2.6% MoM decrease, the Fund was up 23.4% YTD and continued to lead the VN-Index (in US$), recording outperformance of 6.83% MoM, 0.36% YTD and 38.70% since inception.

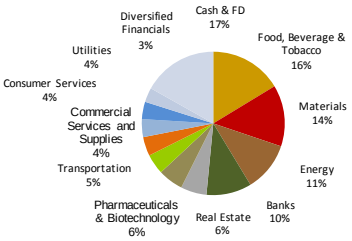
Performance vs. VN-Index (US$)



Fund Breakdown



Sector Breakdown



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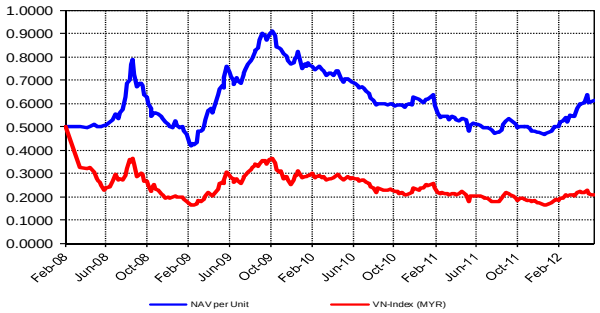
Hong Leong Vietnam Fund (HLGVF)

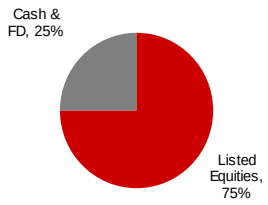
NAV per unit	RM 0.6126
	US$ 0.1939
May-12	2.24%
YTD	29.45%
Since inception (Feb08)	22.5%
Bloomberg	HLGVIET:MK

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 RM0.6126. With an increase of 2.24% MoM, 29.45% YTD, and 22.52% since inception, the Fund continued to lead the VN-Index (in MYR), recording outperformance of 7.42% MoM, 5.16% YTD, and 80.72% since inception.

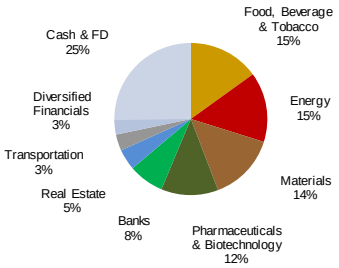
Performance vs. VN-Index (MYR)



Fund Breakdown



Sector Breakdown



HS-VAM Vietnam Index Linked Fund (VILF)

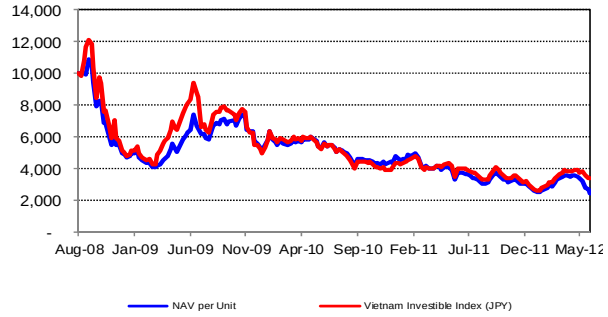
NAV per unit	JPY 2,468
	US$ 31.26
May-12	-30.2%
YTD	-6.1%
Since inception (Jul08)	-75.3%
Bloomberg	VAMINLI KY Equity

As of 30 May '12

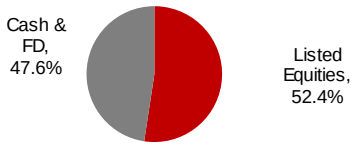
VILF is a Cayman open-end unit trust for Japanese retail investors. The Fund invests in top 20 investible listed blue-chips in Vietnam on a passively-managed basis.

The Fund's NAV per unit decreased 30.2% MoM to close at JPY 2,468 on 30 May 2012.

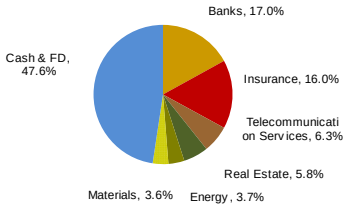
Performance vs. VII (JPY)



Fund Breakdown



Sector Breakdown



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