Monthly Newsletter

31 Oct '12

Market Update

Another down month for the 2 main bourses

The month of October saw the VN index close at 388.2, losing 0.47% whilst the HNX index fell 4.42% to close at 53.02. The VN30 somehow managed to move the opposite direction, gaining 0.82% to close at 458.56 and was again the best performer of the 3 indices.

CPI slowed down as price increases for healthcare and education were nearly completed

The Consumer Price Index rose 0.8% MoM in October, after jumping 2.2% the previous month due to one-off price adjustments in two major government-controlled sectors. Consequently, the YTD inflation appeared to be calmer at 6.02% as the healthcare and pharmaceutical component of the CPI basket decelerated from 17.02% to 5.94% and the education component decelerated from 10.54% to 1.88%. Although pricing pressure from food and foodstuff is seasonally higher in the last quarter, we think the one-digit inflation target of FY2012 is likely to be met. In addition, there is positive news for inflation, as the Ministry of Industry and Trade announced that input price for electricity production has declined in the last three months, and no price adjustment would be scheduled in November.

PMI weakened in October

The seasonally adjusted HSBC Manufacturing PMI posted 48.7 in October, down from 49.2 in September. As such, the headline PMI has remained below the critical 50.0 mark for seven months running. Partly, stocks of purchases fell further in October, as the downturn in the manufacturing sector led companies to empty out their inventory holdings. A number of firms also linked lower stocks to reduced levels of input purchasing. Weaker global demand led to a further solid reduction in new export business during October as well. Incoming new export orders have fallen in each of the past six months; subsequently, the latest decline in new export orders was the steepest in the 19-month survey history. In which,

companies reported reduced inflows of new business from China, Japan and Taiwan.

SBV serious in solving bad debt

According to the latest SBV estimates, the level of NPLs at the end of June stood at 8.82%, which is even higher than that at the end of March (8.6%). As such, the SBV has submitted a proposal to the Prime Minister to set up an asset management company to take over the VND100 trillion (US\$6 billion) worth of bad debt. Two options are: (i) to expand the role of the existing Debt Asset Trading Company under the MoF, or (ii) to set up an entirely new entity under the SBV. However it will take time to make any proposal a reality as it will need National Assembly approval which will push it to Q2 2013 at the earliest. In the meantime, banks are required to revalue their loan collaterals, and we believe this process will weigh down financial performance of lenders in the upcoming period.

Deadline for closing gold position extended to 30^{th} June, 2013

After declaring the widened gap between domestic and world gold prices is primarily due to banks rushing to cover their gold positions before 25th Nov, SBV has extended the deadline to 30th June, 2013. Total gold mobilization until the new deadline must not exceed the gold needed to settle gold accounts. Since there are still 20 tons of gold needed to repay depositors and banks are not allowed to import gold, the extended deadline is meant to ease pressure on domestic gold price and help banks avoid sizable losses that would occur if they were to buy gold at peak price just to meet the deadline on 25th Nov.

Budget deficit in 10M2012 exceeds the whole year target

The YTD budget deficit in October rose to VND155.2 trillion from VND138 trillion last month, exceeding the VND140 trillion full-year target. As of 31st Oct, total tax revenue amounted to VND523.4 trillion, equivalent to 71% of the yearly plan. On the other hand, government spending

approached VND 678.6 trillion, or 75% of the yearly plan. The budget deficit equals to 6.9% of GDP, far higher than the target of 4.8%-4.9% for the year, suggesting that room for fiscal policy to stimulate domestic growth is quite limited.

Trade balances returned to deficit in October. FDI disbursement unchanged year on year

The trade deficit is USD 500 million in October as imports increased 12% MoM to US\$10.4 billion, whilst exports only increased 4% MoM to US\$9.9 billion. With a large deficit in October, the trade balance has returned to deficit of US\$357 million from a surplus of US\$143 million in September. Since demand for import tends to be seasonally high in the last two months of the year, we think the trade balance by year end will likely be a larger deficit. However, the news that FDI disbursement in October reached US\$900 million, unchanged year-onyear has provided some comfort that foreign investors still see investment opportunities in Vietnam. In fact, it is heart warming that the FDI disbursement year to date (US\$9 billion) has almost tracked the level achieved over the same period last year (US\$9.1 billion), despite tougher economic condi-

Our view

Our view has hardly changed since last month. As Vietnam's top leaders are debating on critical issues including proposed amendments to the Constitution and several laws, we see little clarity on the economy or stock market until all that is settled. As such, we prefer to be conservative at this time, holding high cash and only retaining our core equity holdings; companies with strong fundamentals which we have high conviction in and believe will stand the test of change. We take this opportunity to screen the market for resilient companies with little or no debt, strong market position, high growth potential, good cash flow and savvy management with integrity, for possible immediate action when the market turns.



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%	0.5%	-6.2%	19.8%	10.4	9.5	8.1	7.2	5.6	2.2	5.3	20.6	32.0	18.1	15.0	5.47
Automobiles & Components	0.7%	1.2%	-8.5%	23.5%	17.8	7.5	5.9	6.2	3.3	1.5	6.6	22.7	16.7	10.7	6.7	0.6
Banks	31.0%	-0.9%	-16.5%	23.3%	7.6	9.3	8.1	8.3	7.1	1.4	6.3	13.8	39.4	17.2	12.4	13.9
Capital Goods	2.1%	2.3%	-15.5%	19.0%	7.4	5.8	5.8	5.5	4.7	1.2	8.3	19.9	36.9	18.6	33.2	0.4
Commercial Services & Supplies	0.2%	-3.4%	-6.7%	18.0%	8.6	4.6	6.4	6.3	6.2	0.9	9.1	17.8	32.1	13.4	11.5	0.1
Consumer Durables & Apparel	0.5%	4.9%	-21.1%	-13.5%	7.2	7.9	7.2	6.6	5.4	1.5	6.2	20.2	12.0	6.5	5.0	0.5
Consumer Services	0.3%	-0.1%	-0.2%	25.6%	5.8	5.7	5.3	4.9	4.1	2.0	-	29.8	62.6	44.9	41.1	-0.4
Diversified Financials	2.4%	-1.3%	-20.6%	27.5%	4.9	14.7	8.6	7.5	5.7	0.9	7.1	8.4	55.9	52.1	43.5	-0.7
Energy	15.4%	0.9%	0.9%	25.9%	11.2	9.7	8.2	6.4	4.7	2.8	3.5	26.1	17.4	12.9	9.5	0.1
Food & Staples Retailing	0.1%	3.2%	-17.8%	10.8%	-	-	-	-	-	-	-	-	-	•	ı	-
Food, Beverage & Tobacco	21.3%	3.5%	11.9%	28.1%	14.6	13.1	10.6	8.5	5.2	5.0	3.1	31.2	30.7	18.5	16.4	-0.2
Health Care Equipment & Services	0.1%	4.4%	8.8%	20.5%	-	-	-	-	-	-	-	-	-	-	ı	-
Household & Personal Products	0.3%	-1.3%	-14.9%	9.4%	7.4	3.6	6.2	5.1	3.6	0.6	3.1	18.9	25.0	10.8	8.7	-0.1
Insurance	4.4%	-1.1%	-19.5%	-3.6%	6.6	5.4	4.8	4.8	4.2	0.6	4.4	11.5	36.5	6.7	28.5	-1
Materials	5.8%	-1.9%	-6.6%	35.7%	5.2	5.0	3.7	3.5	3.2	1.3	7.7	29.3	27.6	21.6	20.1	-
Pharmaceuticals & Biotechnology	1.5%	0.1%	5.0%	15.6%	10.6	8.7	8.1	7.0	5.3	2.8	3.4	27.1	44.0	18.2	15.3	-0.2
Real Estate	9.6%	0.2%	-10.0%	-12.2%	8.6	11.6	8.8	8.2	5.3	1.0	7.5	10.8	45.0	36.8	29.9	1.1
Retailing	0.5%	-2.3%	-10.6%	-14.0%	3.8	4.5	3.7	3.3	2.8	0.7	11.2	17.5	6.3	2.4	1.6	0.5
Software & Services	0.2%	5.4%	-6.7%	-15.5%	-	-	-	-	-	-	-	-	-	-	-	-
Telecommunication Services	1.5%	-2.5%	-19.7%	-2.6%	7.1	5.2	4.6	4.1	3.3	1.7	4.0	30.0	18.9	9.8	6.7	0.2
Transportation	1.2%	4.6%	-12.1%	8.4%	120.9	10.1	21.3	7.4	4.6	0.8	7.4	16.0	24.6	18.6	14.4	0.5
Utilities	1.2%	0.6%	-5.3%	31.4%	7.1	6.4	5.8	5.4	4.9	8.0	14.4	14.0	49.6	46.3	53.9	0.1

^{*} Vietnam Market comprises of both the Ho Chi Minh Stock Exchange (HoSE) and the Hanoi Stock Exchange (HNX).

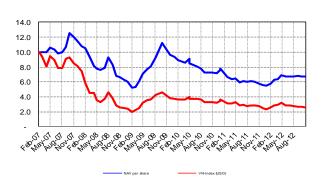
Vietnam Emerging Market Fund (VEMF)

NAV per share	US\$6.7				
Oct-12	0.0%				
YTD	22.5%				
Since inception	-33.0%				
Reuters	65092798				
Bloomberg	VAMVEMF KY Equity				
ISIN		KYG 936131005			
CUSIP		G93613100			

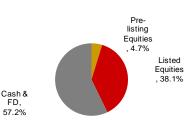
VEMF is a Cayman open-end fund with monthly liquidity for offshore investors. The Fund invests in private equities, privatization, OTC and listed stocks in Vietnam on an actively-managed basis.

As at end October, the Fund's NAV per share was US\$6.7, flat from last month. The Fund was up 22.49% YTD and continued to lead the VN-Index (in US\$), recording outperformance of 0.89% MoM, 11.03% YTD and 40.91% since inception.

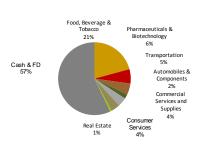
Performance vs. VN-Index (US\$)



Fund Breakdown



Sector Breakdown



^{*}The Sector valuation table is generated by VAM in-house Company Analysis System - VCAS

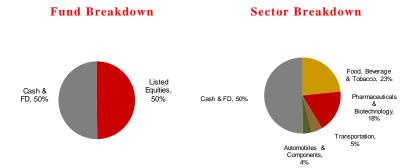
Hong Leong Vietnam Fund (HLGVF)

NAV per unit	RM 0.5934
	US\$ 0.1942
Oct-12	-0.12%
YTD	25.40%
Since inception (Feb08)	18.7%
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 October, the Fund's NAV per unit was RM0.5934. Despite a 0.12% MoM decrease, the Fund was still up 25.40% YTD and 18.68% since inception, the Fund continued to lead the VN-Index (in MYR), recording outperformance of 2.12% MoM, 18.03% YTD, and 82.58% since inception.







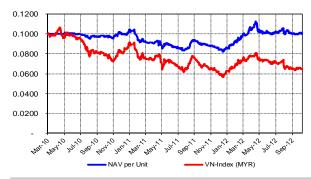
Hong Leong Vietnam Strategic Fund (HVSF)

NAV per unit	RM 0.0998
	US\$ 0.033
Oct-12	-0.60%
YTD	17.65%
Since inception (Feb08)	-0.20%

HVSF is an open-end unit trust for Malaysian retail investors. The Fund invests in OTC, pre-listing and listed stocks in Vietnam.

As at end October, the Fund's NAV per unit was RM0.0998. Despite a 0.6% MoM decrease, the Fund was up 17.65% YTD, the Fund continued to lead the VN-Index (in MYR), recording outperformance of 0.72% MoM, 10.31% YTD, and 36.01% since inception.

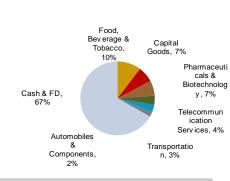
Performance vs. VII (JPY)



Fund Breakdown



Sector Breakdown



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