

## Market Update

The market rally, which started in May, continued into July, thanks to good 1H2014 corporate earnings and positive outlook on Vietnam's economy. Ending the period, the VN-Index jumped 3.1% (in USD term) to close July at 596 in line with a 3.6% (in USD term) increase in the VN30 index whilst HNX made a smaller gain of 1.7% (in USD term) to close at 79.26.

### Despite some gasoline price hikes, inflation headline is still low

After two incidences of gasoline price hikes in June and July with total increase of 3%, transportation item became the leading mover in July, up 0.44% MoM. July's CPI continued to increase at a subdued pace of 0.23% MoM which brought the inflation headline to 4.94% YoY and 1.62% YTD, equivalent to only 23% of FY2014 inflation target.

### YTD trade surplus remained high despite July's trade deficit

July's preliminary trade numbers saw a deficit of USD 250mn, which was mainly driven by a 13.6% YoY acceleration of import to USD 12.7bn. July's export was recorded at USD 12.4bn, up 7.7% YoY. Despite a decline versus last month, YTD trade surplus still remained high at USD 1.26bn, of which the FDI sector was the main contributor.

### Rating agencies' upgrade and foreign-

### ers' strong stocks accumulation

In the latest review, Moody upgraded its rating for the Government of Vietnam's senior unsecured bonds from B2 to B1 for the first time since 2005 due to improvements in macroeconomic stability and progressive SOEs and banking sector reforms. In January this year, Fitch also revised Vietnam's credit outlook from Stable to Positive. Besides, foreign investors net bought USD 343mn YTD, surpassing total net foreign buying value of USD 321mn of the whole of 2013, which, together with the rating agencies' upgrade, implies that Vietnam's macroeconomic outlook has indeed become more positive from the global view.

### NPL edged up slightly amidst weak credit growth

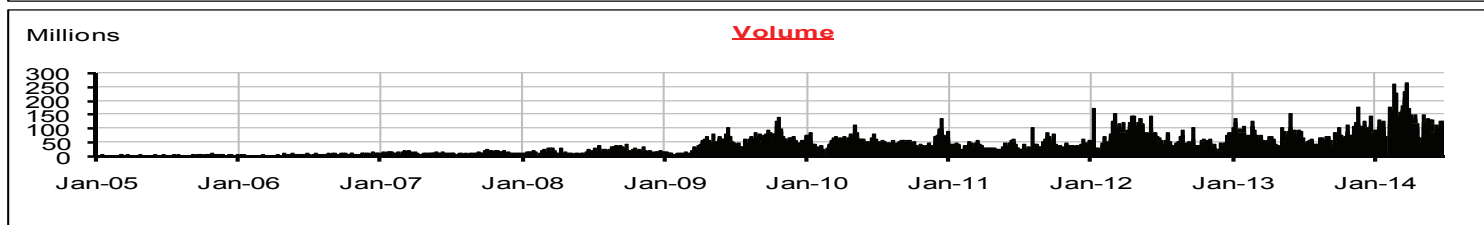
Sector-wide NPL has increased to 4.03% as at end of April 2014 from 3.61% as at end of 2013 as banks applied stricter loan classification according to Circular 09 and 02. Credit growth has been sluggish at only 3.52% YTD, of which, USD loan increased 12.03% YTD due to low USD lending rates whilst loan in VND only increased 2.17% YTD. In order to spur growth in the 2H2014, the SBV allowed some banks to exceed their credit growth caps and became more flexible in foreign currency loan policy.

### More power given to banks and VAMC to accelerate the bad debts recovery process

The Joint Circular 16 which allows lenders to assign an independent valuer to value collateral assets in case of disagreement between the borrower and lender on the selling price became effective since 22<sup>nd</sup> July. The lenders will also be able to reduce the selling price by up to 30% if they cannot sell at the fair value price. This Circular aims to provide banks and VAMC with more power in selling collaterals without borrowers' consent since the lack of such power has been one of the major obstacle for VAMC and banks in resolving bad debts.

### Our view

After the credit outlook upgrade by Fitch in early 2014, the credit rating upgrade by Moody in the last week of July has affirmed that Vietnam's macro economy is indeed improving. With strong support from the FDI sector, Vietnam looks set to enjoy another year of trade surplus. And since inflation is no longer a concern this year, the Government has more room to stimulate the domestic side of the economy. However, looking further afield, the recovery is not without challenges as banks still have to go through the most difficult phase of applying a much stricter debt classification standard, raising concern of higher NPLs. Nevertheless, given a long timeline that banks are given to get ready, we think the reform will not be as dire as previously worried and the success of the banking reform would be critical to the economy's sustainability. We remain optimistic and will continue our search for turnaround stocks that will benefit from the imminent economic recovery.



## Sector valuation

Industry group	Weight %	1M %	3M %	YTD %	2013 PE	2014 PE	2015 PE	2016 PE	2018 PE	P/B	Dvd Yield	ROE	Gross Margin	Op Margin	Net Margin	Net D/E
Vietnam Market	100.0%	3.1%	3.1%	18.1%	15.9	14.4	12.8	11.3	8.9	3.2	4.7	21.9	34.0	19.4	16.6	2.35
Automobiles & Components	0.9%	2.2%	7.7%	24.2%	9.8	9.3	8.1	7.0	4.7	2.1	3.1	25.2	21.9	15.2	9.3	0.9
Banks	23.6%	-1.4%	-5.9%	-0.4%	11.6	12.0	10.3	8.6	7.3	1.2	5.9	10.7	44.1	16.4	11.3	10
Capital Goods	2.3%	2.7%	-6.0%	7.3%	8.9	8.8	8.0	7.0	5.4	1.5	5.1	22.6	28.6	19.7	24.0	-0.1
Commercial Services & Supplies	0.3%	2.9%	5.1%	14.7%	8.2	7.6	6.8	6.2	4.4	1.3	4.7	18.4	33.9	12.1	9.5	-
Consumer Durables & Apparel	0.5%	0.8%	-2.2%	13.4%	10.0	7.8	7.6	6.4	6.2	1.3	6.6	16.9	11.8	6.9	4.1	0.6
Consumer Services	0.2%	7.3%	10.5%	12.0%	8.6	12.3	11.3	10.4	10.2	2.6	-	22.6	76.7	53.4	49.2	-0.9
Diversified Financials	2.2%	-3.4%	-1.9%	38.3%	17.6	14.5	12.8	11.5	8.9	1.5	4.5	10.6	61.5	56.5	56.5	-0.7
Energy	23.6%	3.0%	13.5%	66.0%	16.5	15.9	14.7	13.4	9.8	5.9	2.7	35.7	24.8	19.8	16.3	-0.3
Food, Beverage & Tobacco	19.5%	5.5%	-2.8%	5.9%	17.3	18.6	16.4	14.1	9.4	5.2	3.5	29.7	33.1	18.4	16.4	-0.3
Health Care Equipment & Services	0.1%	10.8%	12.3%	-10.8%	-	-	-	-	-	-	-	-	-	-	-	-
Household & Personal Products	0.4%	2.7%	-1.5%	-1.0%	7.2	8.1	8.3	6.8	7.3	1.0	5.6	13.5	27.4	10.0	9.4	0.1
Insurance	3.6%	2.2%	8.7%	10.5%	13.2	10.6	9.1	8.1	-	1.2	2.5	12.0	22.1	-0.8	20.1	-0.9
Materials	5.6%	1.3%	2.9%	8.7%	10.0	9.4	9.3	9.8	22.0	1.9	6.9	21.1	21.6	14.9	12.9	0.2
Pharmaceuticals & Biotechnology	1.5%	-1.6%	-6.1%	3.9%	13.4	13.1	10.5	8.3	4.8	3.0	3.3	24.2	45.6	16.9	12.8	-0.3
Real Estate	10.7%	9.1%	5.8%	9.0%	29.5	16.6	13.6	12.1	7.5	1.2	7.5	8.3	40.7	28.6	21.2	0.8
Retailing	0.4%	4.8%	4.7%	4.5%	8.9	8.1	7.5	7.0	1.1	1.1	5.9	17.0	8.6	3.6	2.6	0.3
Software & Services	0.1%	4.5%	-10.6%	2.7%	-	-	-	-	-	-	-	-	-	-	-	-
Telecommunication Services	1.7%	7.5%	-7.3%	32.8%	10.7	8.2	6.7	5.5	3.5	2.1	5.0	26.6	19.1	9.7	6.7	-
Transportation	1.6%	4.6%	2.6%	4.7%	10.2	10.1	7.9	6.8	5.1	1.5	6.7	16.0	22.6	17.8	15.0	1.3
Utilities	1.5%	2.3%	2.9%	0.9%	8.1	10.3	10.6	12.2	10.9	1.2	5.3	12.8	35.8	32.1	29.8	-

\* As of 31 July, 2014

\* Vietnam Market comprises of both the Ho Chi Minh Stock Exchange (HSX) and the Hanoi Stock Exchange (HNX).

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

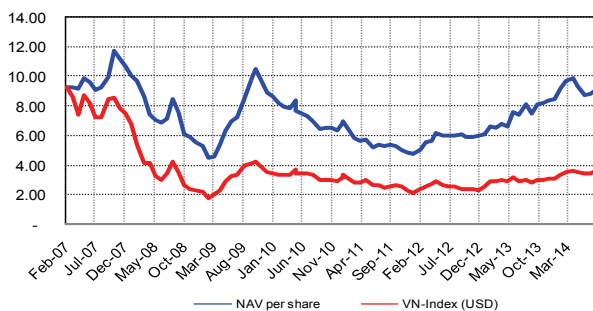
## Vietnam Emerging Market Fund (VEMF)

NAV per share	US\$9.09
Jul-14	2.4%
YTD	6.7%
Since inception (Feb 07)	-1.8%
Reuters	65092798
Bloomberg	VAMVEMF KY Equity
ISIN	KYG 936131005
CUSIP	G93613100

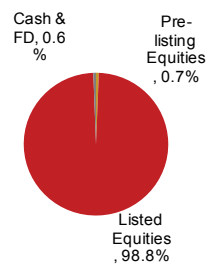
VEMF is a Cayman open-ended fund with monthly liquidity for offshore investors. The Fund invests in private equities, privatization, OTC and listed stocks in Vietnam on an actively-managed basis.

As at end July, the Fund's NAV was \$9.09. With a 2.36% MoM increase, the fund was up 6.69% YTD, the Fund continued to lead the VN-Index (US\$), recording outperformance of 59.03% since inception. As at end of July, the fund was 99.4% invested.

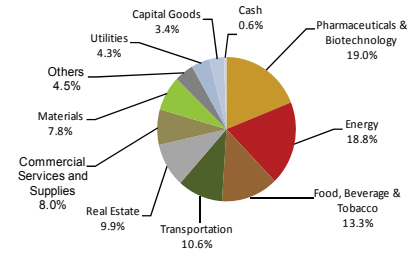
### Performance vs. VN-Index (US\$)



### Fund Breakdown



### Sector Breakdown



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