

Market Update

Positive news on the relaxation of Foreign Ownership Limit on securities companies and improving 1H2014 macroeconomic results have fanned market concerns about the Vietnam-China tension in June. Ending the review period, the VN-Index advanced 2.9% to close at 578, in line with a 2.8% gain of the HNX, whilst the VN30 slipped 0.47% to close at 615.

1H2014 economic growth accelerated whilst inflation remained under control

According to the GSO, GDP growth accelerated in 2Q2014 (5.25% YoY versus 5.09% YoY recorded for 1Q2014), and came in at 5.18% YoY for 1H2014, the highest level for the same period in the last 3 years. June's CPI grew 0.3% MoM, a mild acceleration from 0.2% MoM in May, but this acceleration was due to some seasonal and one-off factors, such as (1) seasonal summer / World Cup demand; (2) gasoline price hike in April; and (3) higher health services fees in Ho Chi Minh effective 1st June 2014. 1H2014 inflation came in at 4.98% YoY and 1.38% YTD, which is only 20% of the Government's full year 2014 inflation target.

Dong devalued by 1% after 1 year

As the Dong has been put under pressure since the beginning of May, the SBV decided to devalue the Dong by 1% to VND 21,246/USD, from VND 21,036, the level which has been the reference rate for almost 1 year. The trading band is now USD/VND 21,034-21,458. The recent stress in the FX market should be due to (1) the tension with China in the Vietnam's East Sea; (2) nega-

tive USD deposit growth amidst increasing USD credit growth due to low USD interest rates.

Securities companies will be the first to get a foreign ownership limit (FOL) increase

Whilst the relaxation of FOL at securities companies will likely be applied first to comply with WTO commitments, lifting FOL for other sectors is more difficult and unlikely to be implemented for the foreseeable future. In the mean time, the State Securities Commission of Vietnam (SSC) is waiting for the Ministry of Planning and Investment to evaluate various sectors to decide which ones should be allowed FOL relaxation.

First basket of bad debts sale is expected

The VAMC will sell USD 18.4mn (VND 390bn) of bad debts through auction and authorize some credit institutions to recover another USD 23.5mn (VND500bn) of bad debts. The first sale will have novelty significance in the context of lacking regulatory framework. Since the beginning of the year, VAMC has purchased USD 0.29bn (VND 6.08trn), raising the total purchased bad debts to USD 2.23bn (VND 47.4trn).

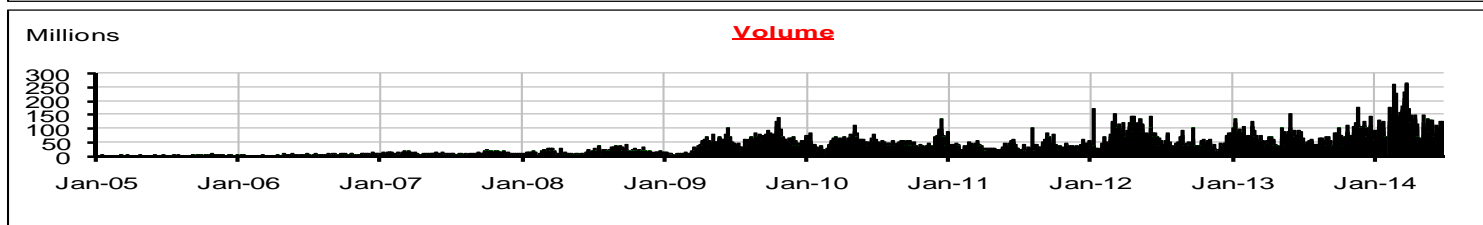
Public debt is still well below the ceiling whilst equitization progress has been slow

Although the public debt/GDP ratio has been increasing from 50.1% (2011), 50.8% (2012) to 54.1% in 2013, the figures were still below the ceiling at 65% set by the National Assembly. 50% of public debt is foreign debt with remaining maturities of 15 years whilst the

remaining 50% is domestic debt, through Government Bonds with tenors of 2-5 years. Separately, since the beginning of 2014, only 17 companies were equitized out of the target of 432 companies for 2014-2015, putting many leaders and management teams under the pressure to meet this objective by end 2015.

Our view

The first half of 2014 ended with positive economic results, including low inflation, accelerating economic growth, sustained trade surplus and improving business confidence. Amidst the prolonged tension with China, the SBV seems to make the right decision to devalue the VND by 1% instead of injecting USD into the system at below-market rates to defend the FX. This move will help the SBV maintain their healthy foreign reserves and avoid speculation activities. Moreover, since the depreciation is in fact a part of macroeconomic strategy to spur export and boost economic growth, we think it will bring about long term benefits far exceeding the short-term pains. On the FOL front, although careful preparation by the Government and its cautious stance may mean that the whole process will take time, we think the FOL story still gives an upside catalyst to the Vietnam stock market in the medium term as the Government really wishes to bring Vietnam's stock market on par with its regional peers. As the economic recovery appears more visible, we maintain our moderately optimistic view on the economy. We will watch 1H2014 corporate earnings, which are starting to be released, closely for new stock actions in the coming weeks.



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%	2.9%	-2.7%	14.6%	14.4	12.9	11.6	10.6	8.5	3.0	5.1	21.7	33.1	19.8	17.1	2.36
Automobiles & Components	0.9%	5.7%	-0.9%	21.5%	10.1	9.8	8.6	7.2	4.5	2.1	3.2	22.9	20.6	13.8	8.5	0.7
Banks	24.2%	-2.2%	-11.6%	1.0%	11.5	10.0	9.0	8.7	7.6	1.2	6.5	12.0	39.3	17.7	12.1	10.1
Capital Goods	2.4%	1.5%	-17.3%	4.5%	9.4	8.6	8.1	7.1	5.7	1.6	5.9	17.9	32.8	15.2	27.6	0.2
Commercial Services & Supplies	0.4%	3.6%	2.5%	11.4%	16.2	30.2	18.7	17.5	16.5	2.1	4.9	12.3	17.8	6.3	4.5	0.3
Consumer Durables & Apparel	0.5%	3.6%	-3.4%	12.5%	9.6	7.3	7.2	7.4	6.1	1.3	6.4	57.5	12.1	7.0	4.8	0.3
Consumer Services	0.2%	5.4%	-4.5%	4.5%	7.4	6.8	6.3	5.7	-	1.3	-	21.2	48.9	37.1	31.3	-0.6
Diversified Financials	2.0%	9.7%	-13.0%	43.2%	17.0	14.0	12.5	11.5	9.2	1.4	4.4	10.2	58.3	52.7	52.5	-0.6
Energy	22.2%	12.4%	26.7%	61.2%	16.0	15.3	14.2	12.8	9.5	5.7	2.8	35.5	24.6	19.6	16.1	-0.3
Food, Beverage & Tobacco	20.0%	-2.5%	-9.6%	0.3%	15.7	16.3	14.4	12.5	8.3	4.7	4.0	29.9	32.7	18.3	16.4	-0.3
Household & Personal Products	0.4%	1.4%	-15.2%	-3.6%	7.1	7.9	8.0	6.5	7.3	0.9	5.8	12.5	26.6	10.1	9.3	0.2
Insurance	3.5%	0.9%	-12.5%	8.2%	6.9	6.9	6.3	6.2	-	0.7	3.5	10.4	32.9	6.1	26.4	-0.9
Materials	5.6%	2.9%	-9.5%	7.3%	9.4	8.8	8.9	9.3	23.4	1.8	7.2	20.7	21.1	14.6	12.6	0.2
Pharmaceuticals & Biotechnology	1.6%	-1.4%	-7.3%	5.6%	13.2	12.3	10.5	8.2	4.8	3.0	3.4	25.4	45.4	16.9	13.4	-0.2
Real Estate	11.0%	-3.0%	-15.1%	-0.1%	23.5	15.5	13.2	12.0	7.4	1.2	8.5	8.0	42.3	31.5	21.2	0.9
Retailing	0.4%	5.2%	-11.2%	-0.4%	8.7	8.6	8.2	7.4	-	1.0	8.4	14.5	7.7	3.6	3.4	0.2
Software & Services	0.1%	-7.2%	-17.0%	-1.8%	-	-	-	-	-	-	-	-	-	-	-	-
Telecommunication Services	1.7%	1.1%	-16.4%	23.5%	9.8	7.6	6.1	5.1	3.2	1.8	5.4	26.3	19.1	9.6	6.7	-
Transportation	1.5%	-1.5%	-13.2%	0.1%	10.8	9.3	7.8	7.1	4.0	1.4	4.9	18.5	24.4	19.3	16.9	0.2
Utilities	1.6%	-3.0%	-6.1%	-1.4%	12.4	10.5	9.0	8.4	8.3	1.2	5.6	12.9	33.4	29.0	39.4	-

As at 30 June 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

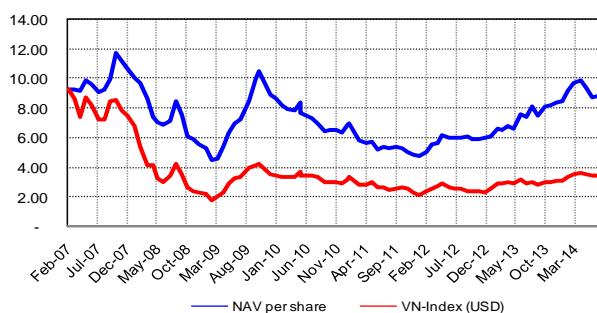
Vietnam Emerging Market Fund (VEMF)

NAV per share	US\$8.88
Jun-14	1.5%
YTD	4.2%
Since inception (Feb 07)	-4.1%
Reuters	65092798
Bloomberg	VAMVEMF KY Equity
ISIN	KYG 936131005
CUSIP	G93613100

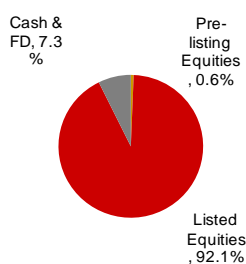
VEMF is a Cayman open-ended fund with monthly liquidity for offshore investors. The Fund invests in private equities, privatization, OTC and listed stocks in Vietnam on an actively-managed basis.

As at end June, the Fund's NAV was \$8.88. With a 1.49% MoM increase, the fund was up 4.23% YTD, the Fund continued to lead the VN-Index (US\$), recording outperformance of 57.94% since inception. As at end of June, the fund was 92.69% invested.

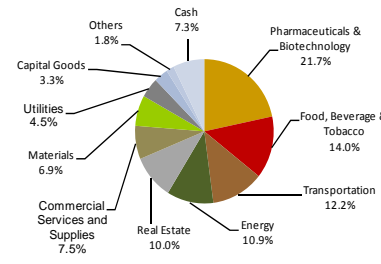
Performance vs. VN-Index (US\$)



Fund Breakdown



Sector Breakdown



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