30 September '14

Market Update

After climbing to the 6-year high of 640 on the first trading day of September, the main index lost its momentum due to profit taking pressure and closed the month just a touch below its 600-point resistance level, losing 6% for the month. The VN30 shed 4.8% whilst the HNX managed to move the opposite direction, gaining 1.8% to end September at 88.63.

Faster-growing economy backed by strengthened manufacturing activities

According to the GSO, the Index of Industrial Production (IIP) recorded a healthy growth rate of 8.6% YoY in September which brought the 9M2014 IIP growth rate to 6.7% YoY, surpassing the growth rate of 5.4% in 9M2013. Likewise, the rebound in new orders caused the HSBC PMI index to climb to 51.7 from 50.3 in the previous month. Thanks to the pick-up of manufacturing activities, the economy expanded 5.62% YoY in 9M2014, making the whole year GDP growth target of 5.8% highly achievable.

Annual inflation still subdued despite a sharp rise in September CPI.

The year-on-year CPI headline slowed to 3.62% YoY in September from 4.32% YoY in August despite a notable monthly rise of 0.4% MoM. The sharp increase in September's CPI was primarily driven by a 6.38% MoM acceleration in education basket amidst back-to-school season. However, thanks to six gasolines price cuts since the beginning of the year, abundant food supply and strict supervision of the government over nationwide price level, the annual inflation still remains subdued.

FDI sector a key pillar supporting economic recovery

Whilst 9M2014 registered FDI declined 26% YoY to USD 11.2bn, the disbursed FDI increased 3% YoY to USD 8.9bn. Processing and manufacturing sector had the highest FDI inflows with registered capital of USD 7.7bn, equivalent to 68.9% of total registered FDI. Real estate and construction sectors ranked second and third with registered capital of USD 1.2bn and USD 0.6bn, respectively. In fact, FDI has been the main contributor to the economy as its export value accounted for 67% of total export in 9M2014, raising YTD trade surplus to USD 2.5bn.

More progress on banking reform towards year-end.

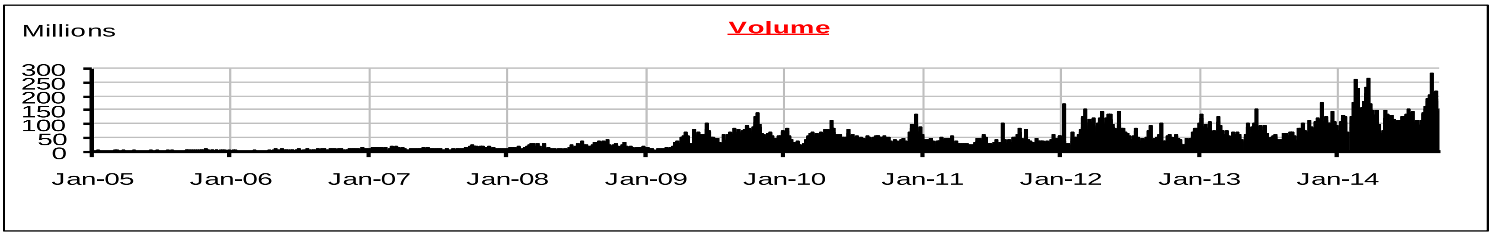
Credit growth accelerates to 7.26% by the end of September from 5.82% in August. Encouragingly, credit to real estate sector has risen 9.85% YTD thanks to SBV's effort in boosting lending to real estate sector. The SBV approved restructuring plans of 8 out of 9 weak banks and is amending the Decree 53 to give VAMC more power to accelerate the bad debts clearing progress. As banks resolved a total of USD 11.7bn (VND 249trn) worth of bad debts in the last 3 years, sector-wide NPL as at end of July was estimated at USD 7.6bn, equivalent to 4.11% of total outstanding loan based on banks' own reports. Given this progress, the Governor is confident that by the end of this year, NPL would be brought down to 3% and credit growth would reach the target of 12%-14%.

Vietnam is set for another credit update by Fitch as economy strengthens

According to Mr. Andrew Colquhoun, Head of Asia Pacific sovereign ratings at Fitch, the rating agency may raise Vietnam's credit rating from B+ to BB- due to improvements in financial situation and economic conditions. This news once again affirms that Vietnam's economic conditions have indeed become more positive from the global view. Though the credit rating upgrade may take 12-18 months to materialize, the good news from Fitch would continue to strengthen foreign and local investors' confidence in Vietnam's economy.

Our view:

The economy is growing faster towards the year-end with increasing GDP growth rate fueled by expansion in manufacturing sector and accelerating credit growth. The impressive improvements in September implied that the momentum of manufacturing sector is indeed solid and we think this sector will continue to be the growth engine for the economic recovery as it is benefiting from positive spillover effects of increasing FDI inflows. On the banking front, concerns on low credit growth seem to be eased as credit growth started accelerating in the third quarter and would increase more rapidly in the last quarter of the year, as the norm. And with the SBV's strong effort in boosting lending to real estate, the recovery process of the real estate sector is expected to be sped up, which would also accelerate the pace of bad debt recovery. We maintain our optimistic view on the economy and continue to search for good buying opportunity of turnaround stocks and stocks that stand to benefit from the healthy structural improvements of the economy.



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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 30 September, 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*

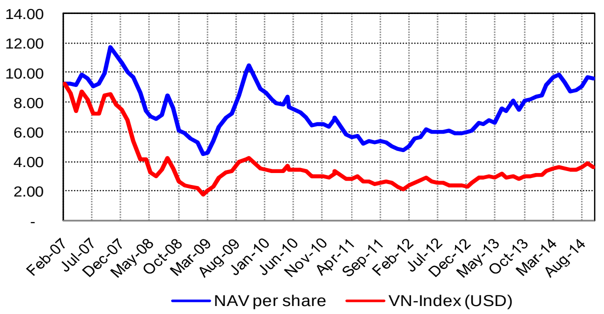
Vietnam Emerging Market Fund (VEMF)

NAV per share	US$9.66
Sep-14	-0.4%
YTD	13.4%
Since inception (Feb 07)	4.3%
Reuters	65092798
Bloomberg	VAMVEMF KY Equity
ISIN	KYG 936131005
CUSIP	G93613100

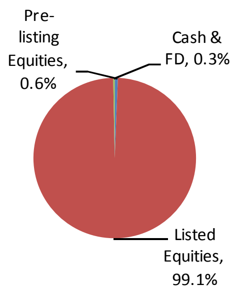
VEMF is a Cayman open-ended fund with monthly liquidity for offshore investors. The Fund invests in private equities, privatization, OTC and listed stocks in Vietnam on an actively-managed basis.

As at end September, the Fund's NAV was $9.66. Despite a 0.41% MoM decrease, the Fund was up 13.38% YTD, 4.32% since inception and outperformed the VN-Index (US$) by 5.68% MoM and 64.81% since inception.

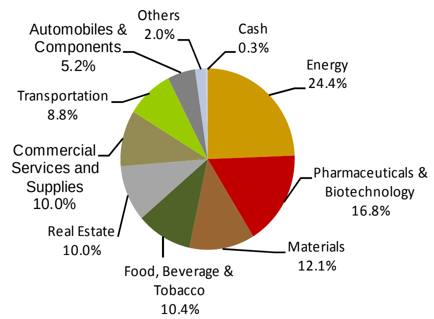
Performance vs. VN-Index (US$)



Fund Breakdown



Sector Breakdown



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