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Market Update

Though 2016 was an eventful year for the world with Brexit vote, Trump election victory, Fed rate hike, etc. the Vietnamese market generally had a good year as the VN-Index advanced 14.8% YoY, while the HNX-Index was almost flat (+0.2% YoY). Thanks to a series of listings of big companies in the last months, we saw a significant increase in combined market cap (HSX, HNX and UpCoM) of USD83 billion recorded at the end of 2016 vs. USD59 billion at the end of 2015. Consequently, liquidity also improved with combined average daily trading value for the three markets reaching nearly USD140 million vs. approximately USD100 million in 2015.

Vietnam's 2016 GDP growth was among top performers in the region; while other major macroeconomic targets were also met

In 2016, Vietnam's GDP growth was estimated at 6.21%, lower than the government's initial target of 6.7% due to harsh weather conditions in the first half and environmental disasters in the central area which seriously affected the agricultural and fishery sectors. Decreasing oil price was another culprit setting a negative impact on the mining sector which declined 5.9% YoY. That being said, Vietnam still achieved one of 2016 highest GDP growth in the region. Main growth drivers continued to show positive results. Namely, FDI disbursements increased 9% YoY to USD15.8 billion – the highest figure ever recorded, supporting exports and leading to a trade surplus of USD2.86 billion vs. a deficit of USD3.5 billion in 2015. Retail sales of goods and services were up 10.2% YoY vs. 9.8% recorded in 2015, indicating a resilient domestic consumption. The manufacturing and processing sector consequently grew 11.2% YoY while Vietnam PMI in December read at 52.4 points – the 13th consecutive month of expansion albeit global slowing demand. Mean-

while, after being kept below 1% last year, inflation picked up to +4.74% YoY in 2016, in line with the official target of below 5%. On currency front, amidst a volatile year for currencies, the Vietnamese dong (VND) was kept relatively stable against the US dollar when VND only lost 1.2% for FY2016. This was thanks to US dollar inflows from FDI, other foreign capital inflows from private placements (estimated at USD3.4 billion), the trade surplus, etc., all of which helped the State Bank of Vietnam (SBV) to build up the foreign reserves to the record high of USD41 billion at the year-end.

Restructuring of banking system will continue in 2017

The SBV has recently submitted to the Government restructuring plans for five weak banks, including the three “zero dong” banks (Vietnam Construction Bank, OceanBank, GPBank) and two other banks, namely Dong A Bank and Saccombank. Execution of the plans is said to start in 2017. Yet, no official feedback has been given by the Government. However, at the 2016 Vietnam Development Forum (VDF) held in Ha Noi on 9 December 2016, the PM said that ADB and a private Vietnamese partner were considering buying a “zero dong” bank, which hinted the possibility that Vietnam may

eventually allow foreign banks to fully buy and restructure “zero dong” banks. As of 30 November 2016, system-wide NPL ratio was reduced to 2.46%. And credit growth was reported at 18.7% at the year-end. A good thing was a big part of disbursed money went to manufacturing sector.

2017 will continue to see significant opportunities from IPOs, listings and state divestments

Listings of big companies and state divestments in the last months of 2016 enhanced market size and liquidity remarkably. The combined market cap was increased to 61.9% of GDP in 2016 vs. 45.8% in 2015. The UpCoM market had the most significant expansion, more than tripled its size during the year. We will continue to see a new wave of IPOs, listings and state divestments of big companies in 2017. Noteworthy names for listing are Vietnam Airlines, Massan Consumer, FPT Telecom, Novaland, Vietjet, etc. The Government has also issued a Decision recently to push harder equitisation of and state divestment from SOEs for the period 2016-2020. As such, numerous SOEs will be privatized and divested in the coming time. Some highlights are Mobifone, VNPT, Vinacafe, Vinataba, Vinapaper, VTV, VTVCab, Vietnam Rubber Group, Vinachem, Hanoi Tourist and Saigon Tourist, etc.

Our comment

Vietnam successfully achieved most major macroeconomic targets in 2016. Though 6.2% GDP growth was lower than the government's initial target, it was still among the highest globally. The country's growth engines kept doing well on the back of its stable macroeconomic environment, which was commendable especially in an eventful 2016. Together with recovering oil price and improving weather conditions, the Government's GDP target of 6.7% for 2017 would not be out of reach. However, inflation needs to be watched given rising prices of global commodities and domestic goods and services, as well as potential further depreciation of the VND. The Government targets to keep inflation in 2017 at the same level of 2016, i.e around 5%. Another point to watch is the currency. Expected Fed's rate hike(s) in 2017 and thus possible continued strengthening of US dollars could stir Vietnam forex market further. However, current healthy foreign reserves and US dollar inflows should facilitate the State Bank's job in maintaining the FX rate in a controllable range. On the market side, the participation of big newcomers (SAB, BHN, ACV, QNS, etc.) and state divestments increased the market attractiveness and liquidity. Further improvement is strongly expected with coming IPOs, listings and state divestments of other big names as mentioned above. Therefore, the market looks set to offer more interesting investment opportunities in 2017. Overall, we do not change our positive view on the economy and stock market in the coming year.

Sector Valuation

Industry group	Weight %	1M %	3M %	YTD %	2016 PE	2017 PE	2018 PE	P/B	Dvd Yield	ROE	Net Margin	Net D/E
Vietnam Market	100.00	0.98	-3.46	14.80	13.8	12.3	11.3	3.3	4.4	22.5	16.7	3.26
Automobiles & Components	1.11	-3.46	-19.41	-16.36	7.8	7.7	6.5	1.4	9.2	24.0	18.2	0.4
Banks	24.32	-0.67	-7.46	-5.40	12.0	8.5	7.9	1.3	4.5	11.6	11.3	13.8
Capital Goods	4.09	1.40	-3.66	37.39	10.3	9.7	9.1	2.3	3.8	24.5	29.5	0.1
Commercial Services & Supplies	0.88	-0.42	-3.81	31.89	13.5	11.4	10.3	2.9	2.2	22.8	23.5	-0.2
Consumer Durables & Apparel	1.01	3.57	-15.04	-23.77	10.0	7.9	8.9	2.8	2.3	27.7	6.3	0.7
Consumer Services	0.18	6.25	1.76	33.24	10.5	9.6	9.2	1.9	-	18.6	24.7	-0.1
Diversified Financials	1.55	2.17	-6.40	-0.50	15.7	12.2	10.4	2.8	4.8	9.3	37.2	0.3
Energy	11.87	-4.10	-14.89	55.48	15.7	14.5	13.6	2.5	5.2	15.9	11.9	-0.4
Food, Beverage & Tobacco	21.56	-2.24	-6.61	4.16	18.6	18.5	18.0	7.2	3.2	39.9	22.1	-0.3
Health Care Equipment & Services	0.03	-2.56	3.44	-34.43	-	-	-	-	-	-	-	-
Household & Personal Products	0.73	3.33	-1.13	50.32	10.1	7.8	8.0	1.7	4.3	17.3	13.0	-
Insurance	4.89	1.40	-12.20	16.54	11.0	11.1	5.8	1.4	1.8	13.6	20.5	-0.8
Materials	5.61	1.51	-7.07	29.07	8.0	7.5	7.0	1.6	6.8	22.4	12.3	0.4
Pharmaceuticals & Biotechnology	1.78	-2.10	-8.31	45.34	15.7	13.5	12.0	3.0	3.1	20.9	12.8	-0.2
Real Estate	11.43	-1.86	-7.32	8.01	13.2	11.9	10.1	3.2	5.5	18.8	17.0	0.4
Retailing	2.20	-1.80	7.69	55.32	16.0	14.2	13.2	5.7	1.1	47.6	1.5	0.7
Software & Services	1.74	1.46	-6.48	24.00	10.0	8.9	8.4	1.7	4.6	17.7	4.9	0.2
Technology Hardware & Equipment	0.02	37.12	62.55	62.35	-	-	-	-	-	-	-	-
Telecommunication Services	0.07	-0.64	-2.11	-16.30	3.6	2.8	2.6	0.5	-	17.1	9.3	0.4
Transportation	2.83	2.50	-9.55	1.52	10.4	9.6	8.6	2.5	5.2	27.0	23.1	0.3
Utilities	2.07	-3.31	-9.50	8.57	7.9	8.2	7.3	1.3	9.0	16.7	23.5	0.7

* It is generated by VAM in-house Company Analysis System - VCAS, comprising of both bourses and based on VAM covered universe, as of 30 Dec, 2016.

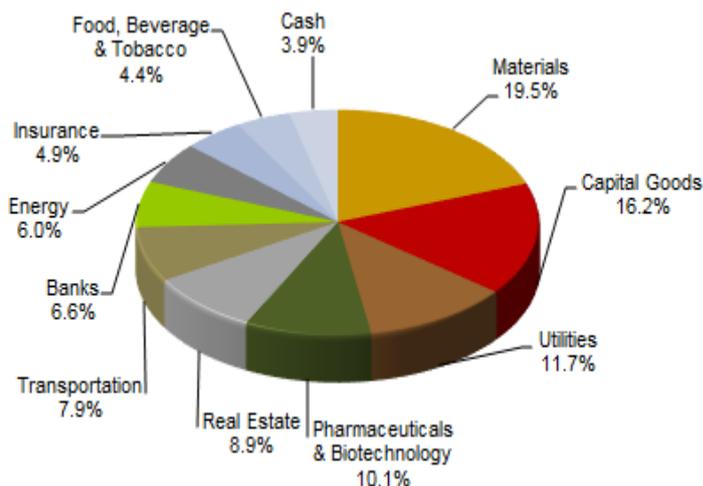
Vietnam Emerging Market Fund SICAV (VEMF SICAV)

As of 30 Dec	Class A	Class B	Class C
Inception date	19 Jun, 14	31 Jul, 14	05 Aug, 16
NAV per share	EUR 1202.7	EUR 1171.4	USD 975.1
Dec-16	0.2%	0.1%	-1.2%
YTD	16.3%	15.4%	-2.5%
Since inception	20.3%	17.1%	-2.5%
Bloomberg	IPCHEMA LX	IPCHEMA LX	IPCHEMA LX
ISIN	LU1042536018	LU1042536281	LU1218444351
Securities No.	A1XE8U	A1XE8V	A14RPQ

VEMF SICAV is a Luxemburg-incorporated UCITS compliant open-ended fund with daily subscription and redemption. The fund invests in public listed equities and equity-related securities in Vietnam, on an actively-managed basis.

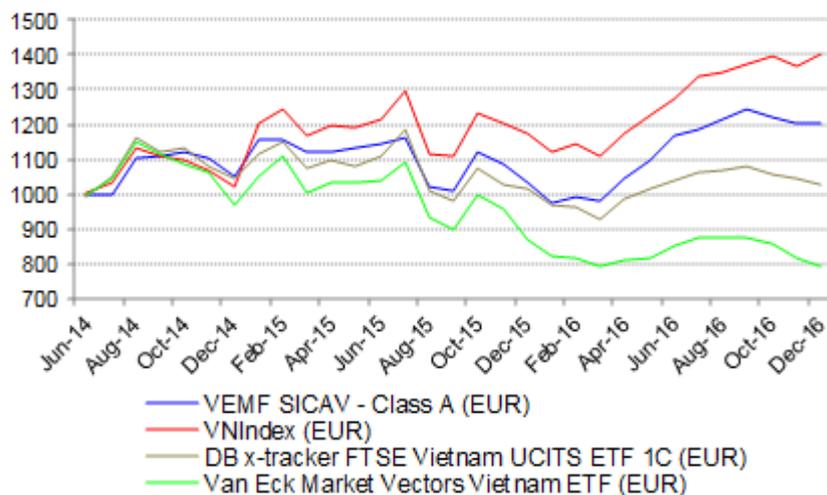
With an increase of 0.17% in December, the Fund (Class A) had a solid gain of 16.32% in 2016. Though underperforming the VN-Index by nearly 3% this year, the Fund strongly outperformed the Van Eck Market Vectors Vietnam ETF by 24.03% and the DB x-trackers FTSE Vietnam UCITS ETF by 14.96% (all in Euro term).

Sector Breakdown



Source: Union Investment Financial Services S.A.

Performance of Class A vs. VN-Index (EUR) and ETFs



Source: Bloomberg, HOSE, VAM, HSBC exchange rate

Disclaimer:

The current Sales Prospectus, the Key Investor Information Document (KIID), the Articles of Association as well as the annual and semi-annual reports of the Vietnam Emerging Market Fund SICAV (“the Fund”) are the sole binding basis for the purchase of fund shares. These documents can be obtained in English and free of charge from the Fund Manager’s website (www.vietnamam.com) and the Management Company’s website (www.ipconcept.com).

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C/o: Unit 01-A, Level 15th, The Landmark, 5B Ton Duc Thang, Dist.1, HCMC, Vietnam, T: +848 3910 3757 - F: +848 3910 3794 ; www.vietnamam.com
For more enquiry, please contact: bd@vietnamam.com