

# Vietnam Equity Market Research Highlights Q2 & Q3 Y08

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**22nd August 2008**

Due date for 2008 Forth Quarter  
report is 15/01/2009. Written by  
CBV Indices Research

## Executive Brief

**Hanoi 27th August 2008**, Bien Viet Securities Joint Stock Company (Abbreviation: CBV) has published the "Vietnam equity market research highlights Q2 and Q3Y08" written by CBV Indices Research. The research report provides an overview of Vietnam stock market in Q2 and Q3Y08 as well as investment strategy recommendation for Q4Y08.

The equity market witnessed significant changes resulting from macroeconomic policies since the beginning of 2008. In Q2Y08, the whole listed equity market of Vietnam posted a loss of 26.5%, however, the market recovered and up to 22 August, a gain of 27.45% is recognized (underperforming MSCI Emerging Markets which fell by 9.65% and up to 22 August, it stayed at 9.31% comparing to MSCI EM Index)

By the end of August 2008, total market capitalization was US\$19.15 billion, about 10% higher than Q1Y2008. Free float-adjusted market capitalization was US \$9.57 billion which accounted for 49.91% of total market capitalization.

In terms of floated market cap as at August 2008, Financials, Consumer Goods and Materials continued to lead the rank, occupying 60.89% of the total. Financial and Materials also led Q2 and Q3Y2008 in trading volume and trading value. The trading value of Financials accumulated in Q2Y2008 was US\$384 million comparing to US\$573 million in the two months of July and August 2008. Materials followed with US\$167 million in Q2 and US\$395 million in July and August 2008. On average, except for a slight decline in Healthcare, the trading value of all sectors has doubled in Q3 2008 comparing to Q2.

In terms of return, Q2 Y2008 saw losses in all sectors, which have well recovered in Q3 2008 led by Materials and Oil and Gas with an increase up to 50%. Going against the trend, Healthcare experienced a small decline of 1.86%.

Regarding size, CBV-LargeCAP continued to outperform, however slightly, CBV-MidCAP and CBV-SmallCAP with a return of 19.02%. Turning to style, Value indices performed better than Growth indices with the CBV-LargeCAP- but with CBV-MidCAP and SmallCAP, growth stocks have done better.

Zooming in individual stocks, DPM led the market regarding average trading value (US\$5 million) and SSI and STB saw a significant increase in their trading value of 6046% and 1137% comparing to Q2 2008. DPM is also the champion in total market cap (US\$1.48 billion) and ACB led in float adjusted market cap with US\$1.05 billion.

### Valuation: Market P/E

CBV examines the movement of P/E Vietnamese market since its beginning until Q2 Y2008. In the last eight years, P/E has followed a short wave a pattern with a wave length of 4 years. It peaked at 30 times and recorded a lowest value of 6 times. The average market P/E, which can be viewed as the fair market P/E is 15 times. Therefore, basing on the current situation, we propose that a market P/E ranging below 10 will be considered undervalued and beyond 20 times to be overvalued for the Vietnamese equities market.

### Profitability matrix

CBV studies individual company performance of those in CBV composite in 2007 in terms of free cash flow and ROE. The result is 22.31% for Average ROE and 367,844,625,118 VND for Average FCF. Basing on the average performance, CBV divides 50 companies in CBV composite into three groups of Less risky, Average and More risky. ACB and DPM are recognized by us as top performer on the two criteria for achieving both high ROE and Free cash flow.

### Capital structure

CBV believes that capital structure is a strategic decision of the firm, playing a vital role in determining the financial health of the company. Capital structure is reflected in D/E ratio. CBV examines the correlation between D/E and such key variables of Size, profitability, Time listed, government ownership and Illiquidity. The ideas for the research stem from a similar research done in the Chinese market. We recognize a positive correlation between D/E and Profitability and Size.

### Style, Sector and Size

As the market is still in its adjustment period, we might expect some more volatility toward the end of the year. We therefore are consistent in our recommendation for large cap stocks with good fundamental. In terms of style, we believe in long term investments built on some quality stocks in our value indices. For sector recommendation, we hold a strong preference for Healthcare and Consumer goods for safer returns.

*“Inflation is the taxation without legislation”*

**Milton Friedman**

*“Wall Street people learn nothing  
and forget everything”*

**Benjamin Graham**

## Vietnam stock market Q2 & Q3 - 2008

### Overview

#### 1. General information

CBV Index-TOTAL 2008

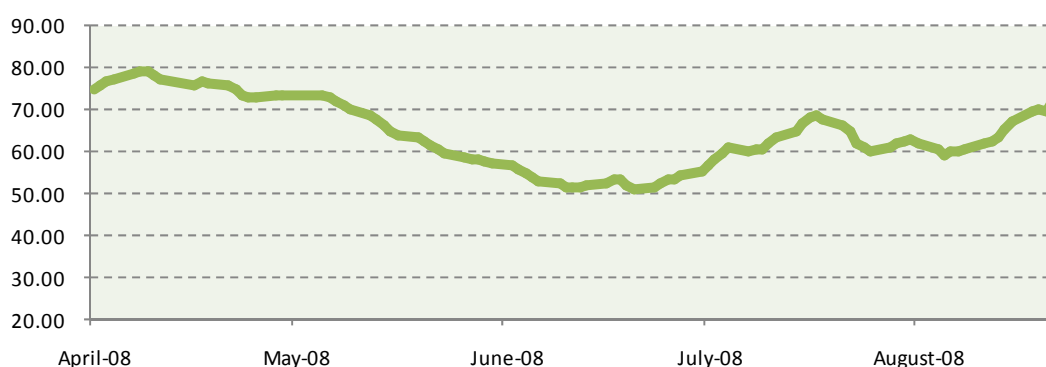


Figure1: CBV-Total Index Q2 & Q3 Y08 (up to 22 August 2008)  
Source: Bloomberg Finance L.P

	2007	Q1Y08	Q2Y08	Up to 22/08
Vietnam listed stock market index, average CBV-Total	133.56	104.25	64.13	63.26
Return (%)	35.05	(44.34)	(26.50)	27.45
Risk (%)	13.01	18.28	10.02	3.75
Total trading value (USD million)	14,007	3,275	1,214	2,055
Monthly average trading value (USD million)	1,167	1,091	405	1,202
Total market capitalization (USD million)	31,491	19,529	17,500	19,148
Total float adjusted market capitalization (USD million)	15,749	9,786	8,912	9,556

Table 1: Vietnam Stock Market Overview  
Source: CBVI Co.

## 2. Ranking

### By Sector

#### By Float Adjusted Market Capitalization

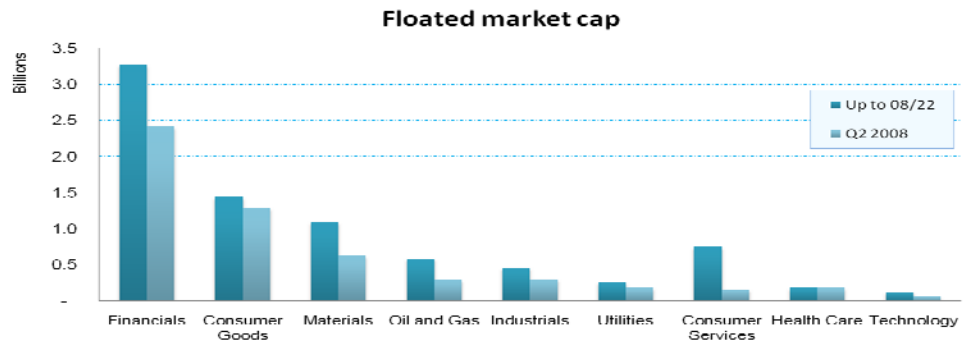


Figure 2: Sector Ranking by Floated Market Cap

No	CBV Indices	Index 06/30/08	Floated Market Cap (USD)	Index 08/22/08	Floated Market Cap (USD)
1	CBV-Financials	69.73	2,420,467,180	94.13	3,280,295,007
2	CBV-Consumer Goods	80.79	1,287,531,935	87.39	1,441,303,855
3	CBV-Materials	73.78	630,279,035	123.32	1,098,745,079
4	CBV-Industrials	59.31	291,659,203	108.92	588,991,248
5	CBV-Consumer Services	22.96	303,647,553	39.70	459,065,004
6	CBV-Utilities	60.27	181,601,796	88.98	262,556,121
7	CBV-Oil and Gas	18.13	161,669,382	27.44	749,584,633
8	CBV-Health Care	105.53	182,617,064	103.85	180,681,592
9	CBV-Technology	22.96	55,956,181	27.03	123,842,434

Table 2: Sector Ranking by Floated Market Cap  
Source: CBVI Co.

#### By Market Capitalization

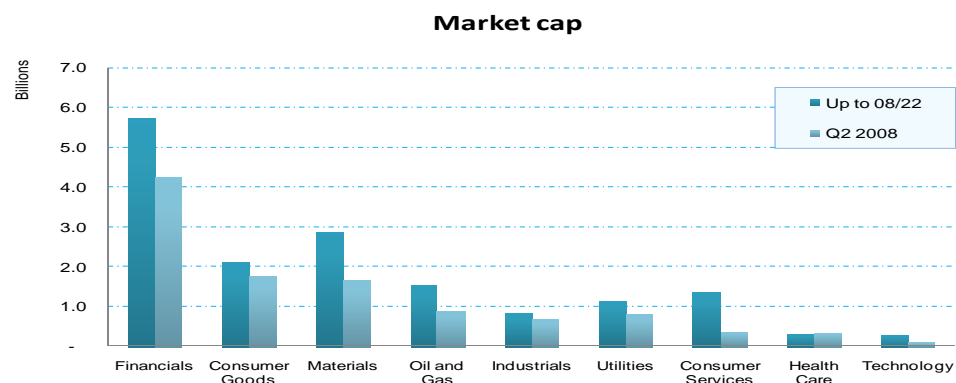


Figure 3: Sector Ranking by Market Cap

No	CBV Indices	Index 06/30/08	Floated Market Cap (USD)	Index 08/22/08	Floated Market Cap (USD)
1	CBV-Financials	69.73	4,241,036,070	94.13	5,726,840,027
2	CBV-Consumer Goods	80.79	1,788,860,703	87.39	2,104,074,418
3	CBV-Materials	73.78	1,667,329,841	123.32	2,890,873,785
4	CBV-Industrials	59.31	875,346,644	108.92	1,537,464,989
5	CBV-Consumer Services	22.96	671,895,305	39.70	824,732,684
6	CBV-Utilities	60.27	796,611,612	88.98	1,133,582,799
7	CBV-Oil and Gas	18.13	363,182,929	27.44	1,366,252,135
8	CBV-Health Care	105.53	339,981,860	103.85	325,630,310
9	CBV-Technology	22.96	115,878,656	27.03	279,918,212

Table 3: Sector Ranking by Market Cap  
Source: CBVI Co.

## By Sector (cont)

### Q2 & Q3-08 Trading Volume by Sector

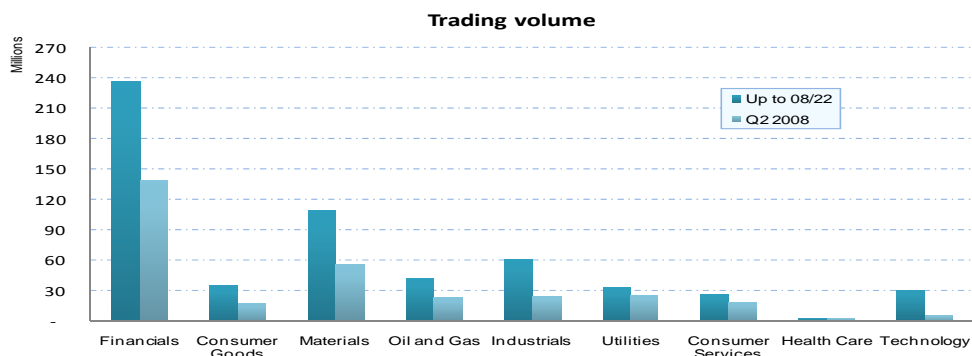


Figure 4: Sector Ranking by Trading Volume

No	CBV Indices	Index 06/30/08	Trading Volume	Index 08/22/08	Trading Volume
1	CBV-Financials	69.73	139,842,188	94.13	237,282,274
2	CBV-Consumer Goods	80.79	16,909,260	87.39	36,055,450
3	CBV-Materials	73.78	55,556,250	123.32	110,012,690
4	CBV-Oil and Gas	59.31	22,781,830	108.92	41,704,665
5	CBV-Industrials	22.96	25,301,370	39.70	61,516,843
6	CBV-Utilities	60.27	26,338,060	88.98	33,159,519
7	CBV-Consumer Services	18.13	18,271,490	27.44	26,861,520
8	CBV-Health Care	105.53	2,849,480	103.85	3,187,540
9	CBV-Technology	22.96	5,415,460	27.03	1,133,970

Table 4: Sector Ranking by Trading Volume  
Source: CBVI Co.

### Q2 & Q3-08 Trading Value by Sector

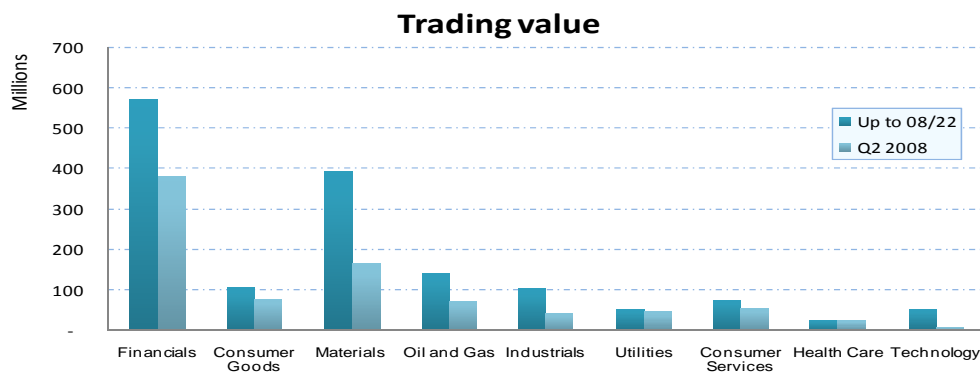


Figure 5: Sector Ranking by Trading Value

No	CBV Indices	Index 06/30/08	Trading Value (USD)	Index 08/22/08	Trading Value (USD)
1	CBV-Financials	69.73	383,975,574	94.13	573,010,504
2	CBV-Consumer Goods	80.79	77,700,962	87.39	105,447,669
3	CBV-Materials	73.78	167,384,286	123.32	394,967,409
4	CBV-Oil and Gas	59.31	72,638,348	108.92	142,275,485
5	CBV-Industrials	22.96	43,221,373	39.70	103,077,772
6	CBV-Utilities	60.27	44,463,557	88.98	52,210,519
7	CBV-Consumer Services	18.13	54,425,650	27.44	76,710,458
8	CBV-Health Care	105.53	25,713,085	103.85	24,975,639
9	CBV-Technology	22.96	8,246,675	27.03	51,393,172

Table 5: Sector Ranking by Trading Value  
Source: CBVI Co.

## By Sector (cont.)

### By % Change

No	CBV-Sector Indices	06/30/08	01/04/08	% Change	08/22/08	% Change
1	CBV-Financials	69.73	102.25	-31.80%	94.13	34.99%
2	CBV-Consumer Goods	80.79	86.54	-6.64%	87.39	8.17%
3	CBV-Materials	73.78	88.75	-16.87%	123.32	67.15%
4	CBV-Oil and Gas	59.31	76.80	-22.78%	108.92	83.65%
5	CBV-Industrials	33.93	58.02	-41.52%	39.70	17.00%
6	CBV-Utilities	60.27	83.16	-27.53%	88.98	47.64%
7	CBV-Consumer Services	18.13	33.11	-45.24%	27.44	51.34%
8	CBV-Health Care	105.53	117.57	-10.25%	103.85	-1.59%
9	CBV-Technology	22.96	34.60	-33.63%	27.03	17.71%

Table 6: Sector Ranking by % Change  
Source: CBVI Co.

## By Size

No	CBV Indices	06/30/08	01/04/08	% Change	08/22/08	% Change
1	CBV-Financials	57.14	76.86	-25.65%	76.16	33.29%
2	CBV-Consumer Goods	56.16	81.66	-31.23%	71.40	27.14%
3	CBV-Materials	56.34	83.93	-32.88%	74.90	32.95%

Table 7: Ranking by Size  
Source: CBVI Co.

## By Style

No	CBV Indices	06/30/08	01/04/08	% Change	08/22/08	% Change
1	CBV-Large Cap-Value	38.14	55.17	-30.87%	58.84	54.26%
2	CBV-Mid Cap-Value	67.49	91.22	-26.01%	81.20	20.31%
3	CBV-Small Cap-Value	85.30	116.52	-26.80%	98.40	15.36%
4	CBV-Large Cap-Growth	58.65	79.30	-26.03%	72.57	23.73%
5	CBV-Mid Cap-Growth	43.32	74.70	-42.01%	62.84	45.06%
6	CBV-Small Cap-Growth	37.16	58.20	-36.14%	61.55	65.62%

Table 8: Ranking by Style  
Source: CBVI Co.

## By Company

### By Trading Value

No	Ticker	Sector	Q2Y08 Trading Value	Q1Y07 Trading Value	% Change	Up to 08/22/08 Trading Value	% Change
1	DPM	Materials	608,109	3,722,415	-83.66%	5,270,177	766.65%
2	ACB	Financials	1,208,413	2,560,725	-52.81%	4,386,274	262.98%
3	STB	Financials	63,748	4,633,397	-98.62%	3,918,363	6046.63%
4	HPG	Materials	462,921	1,135,485	-59.23%	3,213,724	594.23%
5	SSI	Financials	168,615	4,913,739	-96.57%	2,086,381	1137.36%

Table 9: Company Raking by Trading Value  
Source: CBVI Co.

### By Market Cap

No	Ticker	Sector	Market Cap 06/30	Market Cap 03/31	% Change	Market Cap Up to 08/22/08	% Change
1	DPM	Materials	999,317,294	1,155,983,976	-13.55%	1,483,656,174	48.47%
2	ACB	Financials	774,065,755	1,527,294,594	-49.32%	1,369,161,605	76.88%
3	VNM	Consumer Goods	1,141,714,786	1,307,052,800	-12.65%	1,209,680,085	5.95%
4	PVD	Oil & Gas	617,185,580	723,879,569	-14.74%	960,057,719	55.55%
5	STB	Financials	598,638,188	1,033,118,463	-42.06%	919,789,637	53.65%

Table 10: Company Ranking by Market Cap  
Source: CBVI Co.

### By Floated Market Cap

No	Ticker	Sector	Floated MC 06/30	Floated MC 03/31	% Change	Floated MC Up to 08/22/08	% Change
1	ACB	Financials	593,459,660	1,247,442,441	-52%	1,045,597,097	76.19%
2	STB	Financials	398,268,841	411,698,635	-3%	609,636,272	53.07%
3	DPM	Materials	343,751,351	392,456,560	-12%	508,515,797	47.93%
4	VPL	Consumer Services	439,561,217	484,331,341	-9%	455,313,942	3.58%
5	VNM	Consumer Goods	426,854,240	562,108,356	-24%	450,632,672	5.57%

Table 11: Company Ranking by Floated Market Cap  
Source: CBVI Co.

### Top Performers

No	Ticker	Sector	Index on 06/30	Index on 03/31	% Change	Index on 08/22/08	% Change
1	VSP	Oil & Gas	82.71	149.89	-44.82%	357.14	331.81%
2	DTC	Industrials	271.13	245.78	10.31%	998.68	268.35%
3	YSC	Consumer Goods	36.85	47.06	-21.69%	134.52	265.00%
4	VTG	Industrials	154.88	171.67	-9.78%	521.01	236.39%
5	DAC	Industrials	154.59	154.00	0.38%	499.06	222.83%

Table 12: Top Performers  
Source: CBVI Co.

### Worst Performers

No	Ticker	Sector	Index 30/06	Index 31/03	% Change	Index 22/08	% Change
1	LUT	Industrials	32.78	31.75	3.25%	18.21	-44.44%
2	HBE	Industrials	50.53	75.53	-33.10%	30.79	-39.06%
3	NPS	Consumer Goods	223.22	224.95	-0.77%	147.86	-33.76%
4	VHG	Technology	27.27	26.66	2.30%	18.82	-30.99%
5	C92	Industrials	29.60	35.18	-15.86%	20.47	-30.83%

Table 13: Worst Performers  
Source: CBVI Co.

## Analysis

### Overview

CBV-Total Index and MSCI Asia Emerging Market Index Normalized

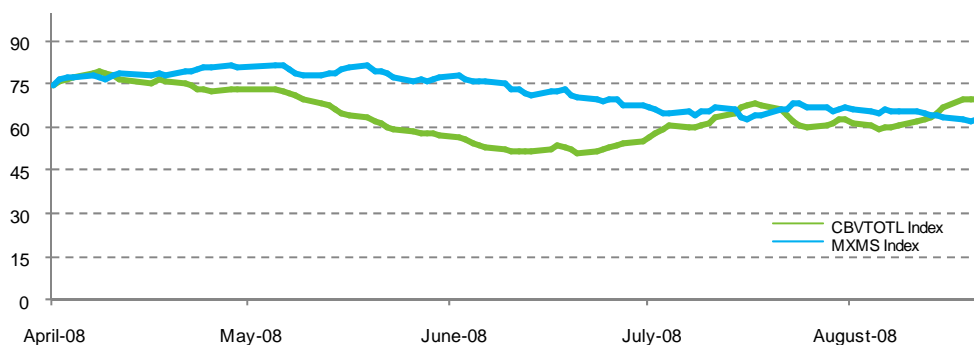


Figure 6: CBV-Total Index and MSCI Asia Emerging Market Index Normalized  
Source: Bloomberg Finance L.P., CBVI Co.

The explanation for the picture of the stock market in the second quarter is from the macroeconomic condition changes.

In Q2, the Vietnam stock market continued its downward trend in 2008, posting a loss of -26.05% basing on CBV Total index changes. Within three months, the CBV-Total Index fell by average of 40.12 points to 64.13, quite below its starting point of 100 at the beginning of 2007. The explanation for the picture of the stock market in the second quarter is mainly from the macroeconomic condition changes. However, up to 22 August of the third quarter, the market has recovered and a gain of 27.45% is recognized.

The income tax law that imposes 20% tax on capital gain or 0.1% on the transaction value taking effect from 1<sup>st</sup> Jan 2009.

The year 2008 so far has witnessed a combination of both fiscal and monetary policies. The income tax law that imposes 20% tax on capital gain or 0.1% on the transaction value taking effect from 1<sup>st</sup> Jan 2009 and a series of interest rate raises has pronounced impacts on the securities market. From the beginning of 2008, the prime rate has been raised up almost every month from 8.25% to the current level of 14%. At the same time, all other efforts to save the country from inflation have been conducted, such as doubling the reserve ratios for all types of deposits and issuing government bonds in the open market operation. This puts more pressure on banks to raise up their interest rates offered on deposits to mobilize funds, which negatively impacted the securities market as funds have been redirected away from the stock market into banks. Since the second quarter, it can be seen that many commercial banks are facing liquidity problems. The evidence was that for some days, the VNIBOR rate for overnight interbank lending and borrowing went up to 30%. Bank shares therefore dropped to a record low level, some of which were even below 10,000VND face value.

Since January 2008, the prime rate has increased four times from 8.75% to the current rate of 14% per annum.

Problems in the banking industry lead to difficulty for the general business sector as banks try to pass the pressure onto their clients. Most banks raised the lending interest to the ceiling level of 21%, 150% of the prime rate. Due to the limit of 30% on credit growth set by SBV in the second

quarter, banks have stricter lending policy. Therefore, companies now have limited access to bank loans and the cost of funds is very high. In the second quarter, many companies reported lower profit or even losses.

Moreover, in the effort to control inflation, the Government tries to cut down spending on inefficient projects. The Government reviews all current projects and stops those projects that are not efficient and defer those that are not necessary for the time being. This poses a challenge to many companies as their projects are suspended. Some companies also reported huge losses as they set provision for their losses of securities investment.

#### **A check on the seasonality effect of Vietnamese stock market**

The presence of seasonality effect in Vietnam stock market was first discovered by CBV Research in Q3Y07 and have ever since been considered a prominent feature of the local stock market. A seasonal cycle of stock returns was observed in three consecutive years (from 2005 to 2007) that stock prices had a tendency to increase at the beginning of the year, decrease in the middle of the year and increase again at the end of the year. However, in Q1Y2008 report, CBV has observed that stock prices dropped dramatically instead of soaring high and prices continued to drop until the last month of the second quarter. In Q3, the stock market has shown good signals of recovery. If this stays strong for the next quarter, the CBV seasonality effect in the Vietnamese stock market might still hold for this year.

#### **Issues to be addressed...**

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##### **This quarter research will center around the following issues:**

1. Robert Schiller famously calculated fair P/E of U.S. equity market within 34 years is 14. So what is the fair P/E of Vietnam listed equity market since its beginning of 2000?
2. What is the profitability matrix of year 2007 based on two scales of free-cash-flow (FCF) and return-on-equity (ROE) of top 50 largest public companies in CBV Index? How many firms have negative FCF but still high ROE, how many low ROE but high FCF, how many both high ROE and FCF.
3. Capital structure of either frontier or emerging market companies are often contradict against traditional Western theories of finance. What is current fashion of capital structure of Vietnam public companies? What are correlations between D/E ratio and government ownership, time-listed, profitability and illiquidity?

## 1. Valuation multiple P/E

P/E is one of the most important valuation multiples for investors. It tells that investors are willing to pay how many dollars to buy one dollar earning of the company. The underlying factor for P/E is as simple as that an early dollar is worth more than a later dollar and a safe dollar is worth more than a risky dollar. Investors need to know if the price level of the stock market today or on any other day reflects economic reality.

In our Q1Y2008 report, we have identified that Vietnam stock market remained the third most expensive stock market in the region in terms of Price-to-book value, only after China and India. We continue to watch the market P/E closely in this Q2 report. A more thorough approach has been applied by examining the 5 years' quarterly data of P/E. CBV therefore watches market P/E overtime since the beginning of VN Index in 2000. It can be observed that P/E follows a wave pattern. This finding is similar to P/E in the US market of which the long valuation wave length is about 34 years with 17 years up and down around the average value of 14 times. Consequently it was concluded that the fair P/E of the US market is 14 times.

In similar attempt, CBV tries to understand the pattern of P/E in the Vietnamese stock market and find out the fair market P/E as the average market P/E. We researched on the average P/E of the listed companies on VN-Index and produced the market P/E for all quarters since Q3Y2000 until Q2Y2008.

Using similar approach with Robert Shiller for the US equity market, 8 years' quarterly data of Vietnamese market P/E were examined to find out the wave pattern of P/E fluctuations, in which P/E tends to swing around the fair value of 15.

The general observation was that market P/E of the VN-Index also follows a wave pattern, however as the stock market is in its early years, the valuation waves are short, about 4 years length. So within the first 8 years of the stock market, it has finished two waves. It can be seen that P/E tends to swing around 15, which could be considered the main horizontal axis, with the upswing to be stronger than downswing. The upswing got as high as 30 times, 15 units away from the main axis where as the downswing got as low as 6, only 9 units away from the main axis. Another interesting observation is that the upswings were marked with a few peaks whereas the downswing tended to be smooth and steady. To sum up, our main finding on Vietnamese stock market P/E given its short history are:

	Vietnamese stock market	US stock market
Valuation wave length	4 years	34 years
Fair P/E	15	14
Highest P/E	30 x	44 x
Lowest P/E	6 x	4.8 x
Notes	<b>Upswing:</b> very strong, not stable with a few peaks <b>Downswing:</b> weaker, steady and smooth.	<b>Upswing:</b> steeper than downswing

Table 14: Vietnamese and US stock market  
Source: CBVI Co.

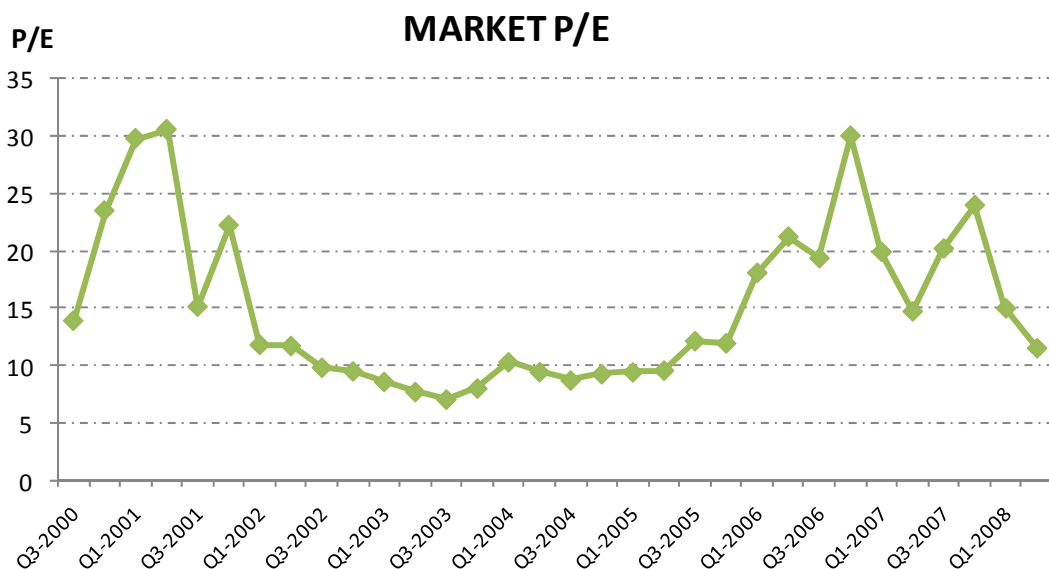


Figure 7: Market P/E  
Source: CBVI Co.

## 2. Profitability Matrix

One good way to think about the returns a company is generating is to use the *profitability matrix*, which looks at a company's ROE relative to the amount of free cash flow it's generating. In this part, company's profitability is assessed for the fiscal year 2007.

CBV used all available financial data which is collected from official sources of HoChiMinh Stock Exchange (HOSE) and Hanoi Securities Trading Center (HaSTC). The subject of the study is companies in CBV Index including 50 companies at end of year 2007. (List of companies is enclosed with this report).

In the profitability matrix, ROE and FCF is the key factor to define the position of a company in the return map. ROE is a measure of a corporation's profitability that reveals how much profit a company generates with the money shareholders have invested; Free cash flow (FCF) represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base.

FCF is the amount of money the owner of the company could withdraw from the treasury without harming the company's ongoing business. The following formula is used to calculate FCF:

$$FCF = CFO - \text{Capital expenditure}$$

Weighted Average ROE equals 22.31% while weighted average FCF is roughly 368 billions VND in 2007

In which CFO is net cash flows from operation and capital expenditure is the amount of money used to buy fixed assets.

Benchmark for this matrix is average ROE and average FCF which is calculate by taking the weighted average basing on data about ROE and FCF in year 2007 of 49 companies in CBV Index. The result comes up with the number of 22.31% for Average ROE and 367,844,625,118 VND for Average FCF. This profitability matrix just consider the risk as well as return of companies in fiscal year 2007 only, no further judgment for long term risk and return is mentioned. (Average ROE equals 22.31% while average FCF is roughly 368 billions VND)

With these two criteria, 50 companies in CBV Index would be divided in to three groups and six subgroups as below:

Criteria	Subgroup	FCF	ROE
<b>More risky Companies</b>	Low FCF & Low ROE	FCF < 0	ROE < 22.31%
		0 < FCF < 367,844,625,118	ROE < 22.31%
<b>Neutral</b>	Low FCF& High ROE	FCF < 0	ROE > 22.31%
		0 < FCF < 367,844,625,118	ROE > 22.31%
	High FCF & Low ROE	FCF > 367,844,625,118	ROE < 22.31%
<b>Less risky Companies</b>	High FCF and High ROE	FCF > 367,844,625,118	ROE > 22.31%

Table 15: Criteria for Profitability Matrix for the year 2007  
Source: CBVI Co.

Based on these criteria, 49 companies in CBV Index is grouped in table with four quartiles (Please refer to the next page)

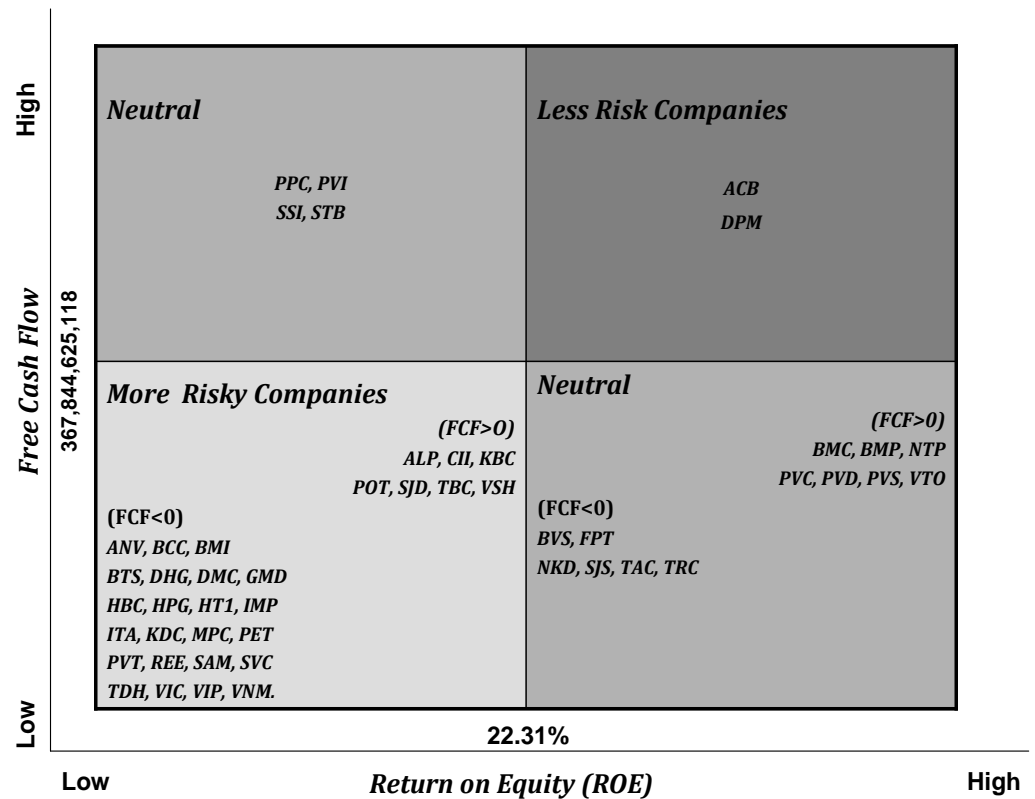


Figure 8: Profitability Matrix for the year 2007  
Source: CBVI Co.

Companies in quartile Less Risky Companies is considered as the best in the list with ability to create strong Free cash flows and also generate high return on equity.

### 3. Capital structure

Capital structure refers to the way a firm finances its assets through combination of equity, debt and hybrid securities. Depending on the characteristics of each company, of the industry it belongs to, and many other factors, the management board will have different policies in building suitable capital structure for the firm. In this research, we want to discover the relationship between capital structure and 5 factors: size, profitability, time listed on stock exchange, illiquidity, and government ownership.

In order to achieve this goal, a sample of 50 companies in CBV Index was chosen to examine this relationship. In this research, capital structure is presented through D/E ratio, in which D is total debt and E is the owner equity (both of them is taken from Financial Statements); illiquidity is reflected by percent of shares not freely floated on stock market; size is quantified by sum of debt and equity (total assets), and profitability is reflected through profit margin.

And here is summary of our findings:

Relationship	Vietnam	Correlation
Correlation between D/E and Illiquidity	-0.0896	Negative
Correlation between D/E and Size	0.9548	Positive
Correlation between D/E and Profitability	-0.2065	Negative
Correlation between D/E and the time listed	-0.0702	Negative
Correlation between D/E and government ownership	-0.1437	Negative

Table 16: Relationship between D/E and other factor  
Source: CBVI Co.

Looking at the table result summary, we can see that only size of the firms **positively related** to D/E ratio. Meanwhile, illiquidity, profitability, time listed and government ownership are **negatively related** D/E ratio. So, what can be rationale for this phenomenon?

Size of the firm is positively related to D/E ratio.

Firstly, let's look at the only positive relation between size and D/E ratio. This can be explained that theoretically, a big corporation tends to diversify its business portfolio probably not for the purpose of increasing profit but to reduce risk. Larger firms also have lesser probability of going bankrupt; therefore it would be easier to get approved by banks because of its high credibility rating as well as its goodwill. Statistically, this relation is strongly supported by a very high value of R square which equals to 0.9116; showing that over 90% of the ratio D/E can be correctly explained by the firm size.

Illiquidity, Government ownership and Time listed are negatively related to D/E ratio

Secondly, the negative relationship between illiquidity as well as government ownership can be explained by the removal of take over threat. That means the higher proportion held by the Government and large shareholders, the less risk of being taken over by competitors. In a sense, it strongly encourages firms to issue shares when there is a need for generating capital. This goes along with the fact that shares are commonly issued at premium in Vietnam stock market, motivating firms to use equity financing tools.

Thirdly, the higher the profitability firm gets, the less debt is used by that firm. This result is similar to China market, in which more profitable firms use less debt. It is supported by the pecking order theory when firms do prefer to raise equity as a financing means of last resort. Again, the current situation of Vietnam market when shares are traded overvalue, is a good time for companies to raise capital through issuing shares. Interestingly, firms which can generate high profit margin, also have high proportion of illiquidity and government ownership, respectively are 57.29% and 39.49%.

Last but not least, a negative correlation between capital structure and the time listed is the only different point in comparison to China stock market. The longer a firm has been listed on the stock market, the more goodwill it has. Therefore, that firm will have higher chance to sell out all seasoned new issue to the investors, explaining why equity is more preferable.

## Strategy Recommendation

### 1. Size

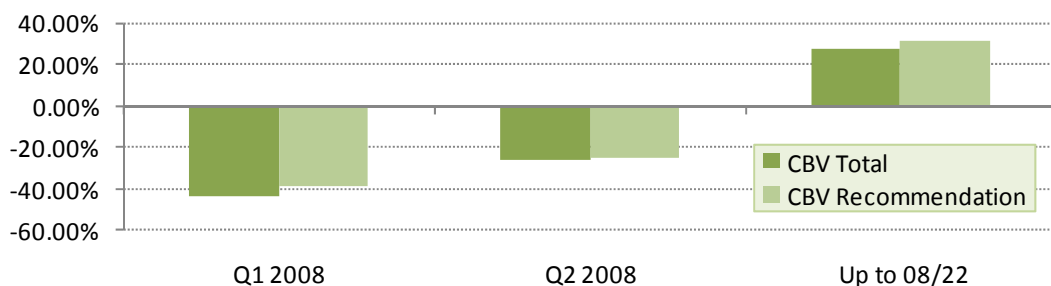


Figure 9: CBV Size Based Recommendation versus Market  
Source: Bloomberg Finance L.P., CBV Index Co

In the last quarter, CBV large cap outperformed CBV mid cap and small cap by almost 6%, which has proven the strategy recommended by CBV in Q1Y2008 right. CBV large cap reported a loss of 25.65% while mid and small cap respectively lost 31.33% and 32.88%. This might be explained by the psychological factor of investors that after the market correction time, investors have more confidence in blue chips with good fundamentals rather than small and mid cap stocks. Therefore, large cap stock prices still stay relatively high to the general market with high P/E. On average, P/E of large cap companies is currently around 20 times. This quarter, we continue recommending on large cap stocks with good fundamentals, especially for medium to long term investors.

### 2. Style

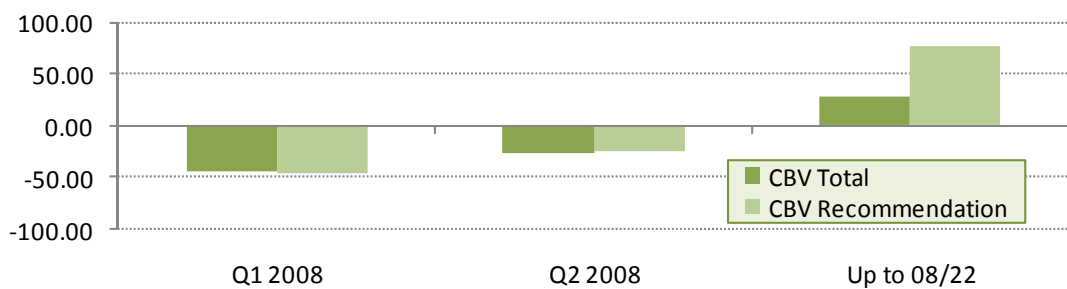
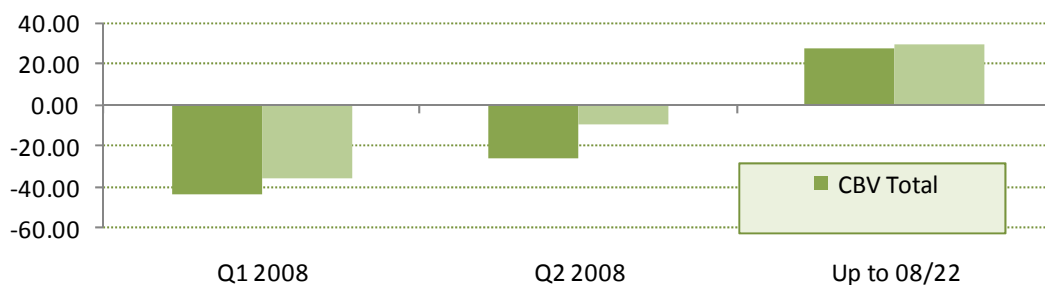


Figure 10: CBV Style Based Recommendation versus Market  
Source: Bloomberg Finance L.P., CBVI Co.

CBV has been consistently recommending a preference of value over growth stocks. As the market is adjusting down, there is ample opportunity for selecting good value stocks that could be deemed to be undervalued by the market right now. Q2 results showed that except for large cap stocks, value stocks, both small cap and mid cap (-26.80% and -26.01% respectively), outperformed growth stocks of the corresponding categories (-36.14% and -42.01%).

### 3. Sector



**Figure 11: CBV Sector Based Recommendation versus Market**  
Source: Bloomberg Finance L.P., CBVI Co.

As Q1Y2008 report recommended on defensive sectors such as Consumer Goods, Utilities and Healthcare as they were less risky than cyclical ones during market downturns and can be considered a safety zone for investors to hide during great volatility. Q2Y2008 performance of these industries once again proves CBV strategy recommendation right. Consumer goods sector was the top performer with a modest 6.64% loss, followed by Healthcare sector with 10.25% loss comparing to the overall market loss of 26.50%. We expect tighten monetary policies effects to last and thus the securities market will not be fuelled as early as in the next quarter. Therefore, for quarter three of the year, we maintain our strategy recommended toward Consumer Goods and Healthcare sector.

By Sector	Q1Y08	Apr - Aug 2008	Sep - Dec 2008
CBV-Financials	Overweight	Neutral	Neutral
CBV-Consumer Goods	Overweight	Overweight	Overweight
CBV-Materials	Overweight	Overweight	Neutral
CBV-Oil and Gas	Overweight	Neutral	Neutral
CBV-Industrials	Neutral	Neutral	Underweight
CBV-Utilities	Neutral	Overweight	Neutral
CBV-Consumer Services	Neutral	Neutral	Neutral
CBV-Health Care	Overweight	Overweight	Overweight
CBV-Technology	Neutral	Neutral	Underweight

Table 17: Sector Investment Recommendations  
Source: CBVI Co.

**This quarter, we recommend investing in Consumer Goods and Healthcare for the following reasons:**

1. These two sectors yield higher return than others in Q1Y08.
2. They possess defensive qualities as observed in developed stock markets and Vietnam market as well.

## Summary of Investment Strategy

Table 18 below shows a summary of our investment strategy recommendation for Q4 Y08 by sector, size and style.

	Q1Y08	Apr - Aug 2008	Sep - Dec 2008
By Sector			
CBV-Financials	Overweight	Neutral	Neutral
CBV-Consumer Goods	Overweight	Overweight	Overweight
CBV-Materials	Overweight	Overweight	Neutral
CBV-Oil and Gas	Overweight	Neutral	Neutral
CBV-Industrials	Neutral	Neutral	Underweight
CBV-Utilities	Neutral	Overweight	Neutral
CBV-Consumer Services	Neutral	Neutral	Neutral
CBV-Health Care	Overweight	Overweight	Overweight
CBV-Technology	Neutral	Neutral	Underweight
By size			
CBV-Large Cap	Neutral	Overweight	Overweight
CBV-Mid Cap	Overweight	Neutral	Neutral
CBV-Small Cap	Neutral	Neutral	Neutral
By Style			
Value	Overweight	Overweight	Overweight
Growth	Neutral	Neutral	Neutral

Table 18: Q4 Investment Strategy Summary  
Source: CBVI Co.

## Appendices

Appendix 1: CBV Index (*also known as CBV LargeCAP*)

Q1Y2008

### Criteria for CBV Index (*also known as CBV LargeCAP*)

Criteria	Description
<b>Market Coverage</b>	Approximately 80% of the Vietnam equities market
<b>Weighting</b>	Market capitalization
<b>Market Capitalization</b>	Minimum of 500 billion VND (approximately 30 mil USD)
<b>Trading Value</b>	Approximately 70% of the Vietnam equities market
<b>Liquidity</b>	At least 0.35%
<b>Reconstitution</b>	As needed basis

CBV Index (also known as CBV LargeCAP)

Q1Y2008

No	Ticker	Company Name	Exchange	CBV Sector	Style	% market cap
1	VNM	VIETNAM DAIRY PRODUCTS JSC	HCM	Consumer goods		6.69%
2	KDC	KINH DO CORPORATION	HCM	Consumer goods		1.64%
3	ANV	NAM VIET CORPORATION	HCM	Consumer goods	Growth	1.10%
4	MPC	MINH PHU SEAFOODS CORP	HCM	Consumer goods		0.53%
5	TAC	TUONG AN VEGETABLE OIL JSC	HCM	Consumer goods		0.64%
6	NKD	NORTH KINH DO FOOD JSC	HCM	Consumer goods	Value	0.35%
7	ALP	ALPHANAM JSC	HCM	Consumer goods	Growth	0.24%
8	FPT	CORPORATION FOR FINANCING AND PROMOTING TECHNOLOGY	HCM	Consumer services	Value	2.83%
9	PET	PETROVIETNAM GENERAL SERVICES JSC	HCM	Consumer services	Growth	0.35%
10	SVC	SAIGON GENERAL SERVICE CORPORATION	HN	Consumer services		0.26%
11	PAN	PAN PACIFIC CORPORATION	HN	Consumer services		0.10%
12	ACB	ASIA COMMERCIAL BANK	HN	Financials	Growth	7.82%
13	STB	SAIGON THUONG TIN COMMERCIAL BANK	HCM	Financials		5.29%
14	SSI	SAIGON SECURITIES CORPORATION	HCM	Financials	Growth	2.47%
15	KBC	KINH BAC CITY DEVELOPMENT SHARE HOLDING CORPORATION	HN	Financials	Growth	4.96%
16	VIC	VINCOM JSC	HCM	Financials	Growth	3.29%
17	SJS	SONG DA URBAN & INDUSTRIAL ZONE INVESTMENT AND DEVELOPMENT	HCM	Financials	Growth	1.36%
18	ITA	TAN TAO INVESTMENT INDUSTRY CORPORATION	HCM	Financials	Growth	2.64%
19	BVS	BAOVIET SECURITIES COMPANY	HN	Financials	Value	1.19%
20	PVI	PETROVIETNAM INSURANCE COMPANY	HN	Financials		1.15%
21	BMI	BAO MINH INSURANCE CORPORATION	HN	Financials		1.11%
22	TDH	THU DUC HOUSING DEVELOPMENT CORPORATION	HCM	Financials	Value	0.68%
23	DHG	HAU GIANG PHARMACEUTICAL JSC	HCM	Healthcare	Growth	1.05%
24	DMC	DOMESCO MEDICAL IMPORT EXPORT JSC	HCM	Healthcare	Value	0.55%
25	IMP	IMEXPHARM PHARMACEUTICAL JSC	HCM	Healthcare		0.43%
26	GMD	GENERAL FORWARDING AND AGENCY CORP	HCM	Industrials	Value	1.25%
27	REE	REFRIDGERATOR ELECTRICAL ENGINEERING	HCM	Industrials	Value	0.91%
28	PVT	PETROVIETNAM TRANSPORTATION CORPORATION	HCM	Industrials		0.67%
29	HT1	HA TIEN 1 CEMENT JSC	HCM	Industrials	Value	0.70%
30	VTO	VIETNAM TANKER JSC	HCM	Industrials		0.47%
31	BTS	BUT SON CEMENT JSC	HN	Industrials		0.66%
32	BCC	BIM SON CEMENT JSC	HN	Industrials		0.54%
33	CII	HO CHI MINH CITY INFRASTRUCTURE INVESTMENT	HCM	Industrials		0.46%
34	HBC	HOA BINH CONSTRUCTION & REAL ESTATE CORPORATION	HCM	Industrials	Growth	0.32%
35	DPM	PETROVIETNAM FERTILIZER & CHEMICAL JSC	HCM	Materials	Value	5.92%
36	HPG	HOA PHAT GROUP JSC	HCM	Materials	Growth	2.81%
37	TRC	TAY NINH RUBBER JSC	HCM	Materials	Value	0.56%
38	NTP	TIENPHONG PLASTIC JSC	HN	Materials		0.41%
39	BMP	BINH MINH PLASTICS JSC	HCM	Materials	Value	0.33%
40	BMC	BINH MINH MINERALS COMPANY	HCM	Materials	Growth	0.23%
41	PVD	PETROVIETNAM DRILLING AND WELL SERVICES	HCM	Oil&Gas	Growth	3.71%
42	PVS	PETROLEUM TECHNICAL SERVICES CORPORATION	HN	Oil&Gas	Growth	1.61%
43	VIP	VIETNAM PETROLEUM TRANSPORT JSC	HCM	Oil&Gas		0.53%
44	PVC	DRILLING MUD JSC	HN	Oil&Gas	Value	0.19%
45	SAM	CABLES & TELECOMMUNICATIONS MATERIAL JSC	HCM	Technology	Value	0.83%
46	POT	POST & TELECOM EQUIPMENT FACTORY	HN	Technology	Value	0.11%
47	PPC	PHA LAI THERMO POWER	HCM	Utilities		3.87%
48	VSH	VINH SON - SONG HINH HYDROPOWER JSC	HCM	Utilities		1.30%
49	TBC	THAC BA HYDROPOWER JSC	HN	Utilities	Value	0.36%
50	SJD	CAN DON HYDROPOWER JSC	HCM	Utilities		0.21%
Total						100%

## Criteria for CBV *MidCAP*

Criteria	Description
<b>Weighting</b>	Market capitalization
<b>Market Capitalization</b>	From 150 to 500 billion VND (approximately 9 to 30 million USD)
<b>Liquidity</b>	At least 0.35%
<b>Reconstitution</b>	As needed basis

CBV MidCAP

Q1Y2008

No	Ticker	Company Name	Exchange	CBV Sector	% market CAP
1	BT6	620 CHAU THOI CONCRETE CORPORATION	HCM	Value	0.22%
2	KHA	KHANH HOI IMPORT-EXPORT JSC	HCM	Growth	0.12%
3	DHA	HOA AN JSC	HCM	Value	0.09%
4	SFC	SAIGON FUEL COMPANY	HCM	Growth	0.18%
5	SSC	SOUTHERN SEED COMPANY	HCM		0.10%
6	TNA	THIEN NAM TRADING IMPORT & EXPORT CORPORATION	HCM	Growth	0.05%
7	ALT	ALTA COMPANY	HCM	Growth	0.07%
8	VC2	VIETNAM CONSTRUCTION JSC NO. 2	HN	Growth	0.10%
9	TCT	TAY NINH CABLE CAR TOUR COMPANY	HCM		0.06%
10	PAC	DRY CELL & STORAGE BATTERY JSC	HCM		0.23%
11	BHS	BIEN HOA SUGAR JSC	HCM	Value	0.16%
12	NAV	NAM VIET JSC	HCM	Growth	0.08%
13	ABT	BEN TRE AQUAPRODUCT IMPORT & EXPORT	HCM	Value	0.10%
14	PTC	POST & TELECOMMUNICATION INVESTMENT	HN	Value	0.10%
15	HAX	HANG XANH MOTORS SERVICE JSC	HCM	Growth	0.06%
16	KHP	KHANH HOA POWER JSC	HCM		0.12%
17	PLC	PETROLIMEX PETROCHEMICAL JSC	HN	Value	0.14%
18	SD7	SONG DA 7 JSC	HN	Growth	0.10%
19	TLC	THANG LONG TELECOMMUNICATIONS JSC	HN	Value	0.05%
20	TNC	THONG NHAT RUBBER JSC	HCM	Value	0.12%
21	ACL	CUU LONG FISH JSC	HCM		0.10%
22	TSC	TECHNO AGRICULTURAL SUPPLYING JSC	HCM		0.14%
23	HDC	BA RIA VUNG TAU HOUSE DEVELOPMENT JSC	HCM		0.13%
24	UIC	IDICO URBAN & HOUSE DEVELOPMENT JSC	HCM	Growth	0.05%
25	PGS	PETROVIETNAM SOUTHERN GAS JSC	HN	Value	0.09%
26	DCC	DESCON CONSTRUCTION CORPORATION	HCM		0.08%
27	VC3	CORPORATION JSC No 3	HN		0.09%
28	VCS	VINACONEX ADVANCED COMPOUND STONE JSC	HN	Growth	0.13%
29	ST8	SIEU THANH JSC	HCM		0.14%
30	HAI	H.A.I JOINT STOCK COMPANY	HN	Value	0.14%
Total					100%

## Criteria for CBV *SmallCAP*

Criteria	Description
<b>Weighting</b>	Market capitalization
<b>Market Capitalization</b>	Less than 150 billion VND (approximately 9 million USD)
<b>Liquidity</b>	At least 0.35%
<b>Reconstitution</b>	As needed basis

## Appendix 3: CBV SmallCAP

Q1Y2008

No	Ticker	Company Name	Exchange	CBV Sector	% floated market CAP
1	CAN	HALONG CANNED FOOD JOINT STOCK CORPORATION	HCM		0.033%
2	VTC	VTC TELECOMMUNICATIONS JSC	HCM	Growth	0.023%
3	BBT	BACH TUYET COTTON CORPORATION	HCM		0.030%
4	GHA	HAI AU PAPER JSC	HN		0.013%
5	TYA	TAYA (VIETNAM) ELECTRIC WIRE AND CABLE	HCM	Value	0.028%
6	RHC	RY NINH II HYDROELECTRIC JSC	HCM	Value	0.030%
7	TKU	TUNG KUANG INDUSTRIAL	HN	Growth	0.017%
8	UNI	VIEN LIEN JSC	HCM		0.014%
9	PTS	HAI PHONG PETROLIMEX TRANSPORTATION & SERVICES JSC	HN	Growth	0.032%
10	DHI	DIEN HONG PRINTING JSC	HN	Growth	0.009%
11	NLC	NA LOI HYDROPOWER JSC	HN	Value	0.037%
12	SAP	TEXTBOOK PRINTING JSC	HN	Growth	0.007%
13	TPH	HANOI TEXTBOOKS PRINTING JSC	HN		0.012%
14	DNP	DONGNAI PLASTIC CONSTRUCTION JSC	HCM		0.024%
15	HJS	NAM MU HYDROPOWER PLANT JSC	HN	Value	0.033%
16	NSC	NATIONAL SEED JSC	HCM	Value	0.038%
17	VPK	VEGETABLE OIL PACKING JSC	HCM	Value	0.034%
18	MCO	MCO VIETNAM JSC	HN	Growth	0.024%
19	DTT	DO THANH TECHNOLOGY CORPORATION	HCM		0.026%
20	PJC	PETROLIMEX HANOI TRANSPORTATION & TRADING JSC	HN	Value	0.011%
21	S64	SONG DA 6.04 JSC	HN	Growth	0.016%
22	SD3	SONG DA NO. 3 JSC	HN	Growth	0.019%
23	SDC	SONG DA CONSULTING JSC	HN	Growth	0.019%
24	STC	BOOK AND EDUCATION EQUIPMENT JSC	HN	Value	0.036%
25	SAF	SAFOCO FOODSTUFF JSC	HCM	Value	0.028%
26	SGD	EDUCATIONAL BOOK JSC	HN	Growth	0.016%
27	SJ1	SEAFOOD JSC NO. 1	HCM		0.031%
28	PSC	PETROLEUM SAIGON TRANSPORTATION & SERVICE JSC	HN		0.020%
29	VDL	LAMDONG FOODSTUFFS JSC	HN	Value	0.025%
30	SDJ	SONG DA 25 JSC	HN		0.017%
Total					100%

## Analyst Certification

### CBV Bien Viet Securities

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