

# Vietnam Equity Market Research Highlights Q1Y08

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**17th April 2008**

Due date for 2008 First Quarter  
report is 18/04/2008. Written by  
CBV Indices Research

## Executive Brief

**Hanoi 17th April 2008**, Bien Viet Securities Joint Stock Company (Abbreviation: CBV) has published the "Vietnam equity market research highlights Q1Y08" written by CBV Indices Research. The research report provides an overview of Vietnam stock market in Q1Y08 as well as investment strategy recommendation for Q2Y08.

In Q1Y08, the whole listed equity market of Vietnam posted a loss of 44.34%, underperforming MSCI Emerging Markets which fell by 5.11%. Float-adjusted market capitalization was USD \$9.78 billion which accounted for 50.11% of total market capitalization.

In terms of market cap, Financials, Consumer Goods and Materials led the rank, occupying 53.43% of the total. Regarding market trading value, three sector leaders were Financials (USD 965 mil), Materials (USD 341 mil) and Consumer Services (USD 219 mil). In terms of return, Healthcare, Utilities, and Materials outperformed other sectors with corresponding yield of -32.77%, -35.75%, and -37.98%.

Regarding size, CBV-LargeCap outperformed CBV-MidCap and CBV-Small cap, but still posting a loss of 43.2%. Turning to style, Value indices perform better than Growth indices with the CBV-SmallCap-Value and CBV-MidCap-Value slightly outperforming the market with respective return of 40.56% and 43.74%.

Among companies having largest float-adjusted market capitalization, Asia Commercial Bank was the leader with USD 1.57 billion, decreasing by 53.71%. Next was Vinamilk with USD 562 billion, decreasing by 33.88% and VinPearl with USD 1.8 billion.

### Momentum and the Efficient Market Hypothesis

The report tests the profitability of two trading methodologies, namely momentum and contrarian strategies for the period starting January 2007 and through to March 2008. It is found that buying stock winners and selling stock losers seem to be more profitable in the short term (3 months) while buying losers and selling winners seem to generate better return in the medium term (6-12 months). As such, the report casts doubt on the Efficient Market Hypothesis which holds that it is impossible to find undervalued stocks or to predict trends in the market through either fundamental or technical analysis.

All indicators suggest that Vietnam stock market's momentum has deteriorated since November 2007. Declining stock prices make the market less expensive, but it also implies weaker momentum characteristics.

### Valuation

Vietnam stock market has become rather cheap with the CBV-Index trading on a multiple (P/E) of 10. Many stocks are brought closer to their fair value or even deemed undervalued, making them attractive picks for long-term investors who are willing to take on further volatility in the short run.

Market corrections are believed to be rather good than bad for the economy since they slow down speculation by domestic investors and stops the wave of short-term investment into Vietnam by foreign short-termists. Long-term institutional investors should be encouraged to enter the market since they will help stabilize the speculative waves made by retail investors.

The report points out two dangerous trends that are taking roots in Vietnam big corporations now, namely short-term versus long term greed, and institutional imperative. It is believed

that only 30% of Corporations and SOEs are operating in business fields they have true core competencies while the rest 70% are involved in markets driven by short-term profit such as real estate and securities.

Considering the de-valuation of many Vietnamese companies now under way, it is expected that a

new wave of merger and acquisition (M&A) as well as business restructuring will take place in Vietnam in the near future.

### Correlation

Regression analysis indicates that most sectors have undergone an increase in correlation after the market slump. Financials, Oil & Gas and Industrials show the highest correlations to the whole market while Consumers Goods, Healthcare and Utilities show the lowest correlations, but still higher than normal. Cross-correlations of daily returns among CBV Sector indices also suggest that most sectors seem to move in the same direction with one another.

### Style, Sector and Size

As the market is likely to experience some more volatile months ahead, we believe market leadership would still be narrow. Thus, our size recommendation continues to be heavily in favor of large caps over small caps. In terms of style, we recommend that investors should accumulate cheap and quality stocks in the Value indices instead of Growth Indices. Considering the continued market uncertainties ahead, we have a strong preference for defensive sectors such as Utilities, Healthcare and Consumer Goods.

*“Frugality is a fair fortune”*

*American Proverb*

## Vietnam stock market Q1-2008 Overview

### 1. General information

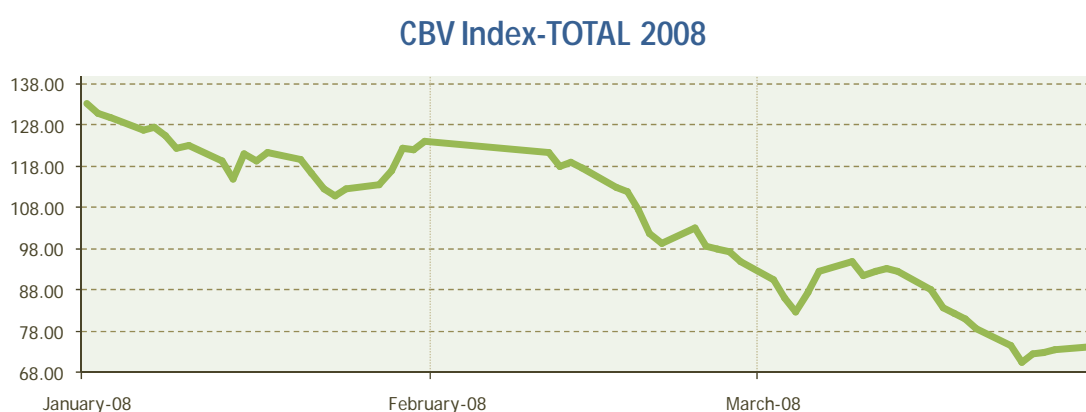


Figure1: CBV-Total Index Q1 Y08  
Source: Bloomberg Finance L.P .

|  | Q1Y07  | 2007   | Q1Y08   |
|--|--------|--------|---------|
| Vietnam listed stock market index, average CBV-Total     | 139.65 | 133.56 | 104.25  |
| Return (%)   | 46.25  | 35.05  | (44.34) |
| Risk (%)   | 15.79  | 13.01  | 18.28   |
| Total trading value (USD million)                        | 4,070  | 14,007 | 3,275   |
| Monthly average trading value (USD million)              | 1,357  | 1,167  | 1,091   |
| Total market capitalization (USD million)                | 21,484 | 31,491 | 19,529  |
| Total float adjusted market capitalization (USD million) | 10,060 | 15,749 | 9,786   |

Table 1: Vietnam Stock Market Overview  
Source: CBV Index Co.

## 2. Ranking

### By Sector

#### By Float Adjusted Market Capitalization

##### Floated Market Cap

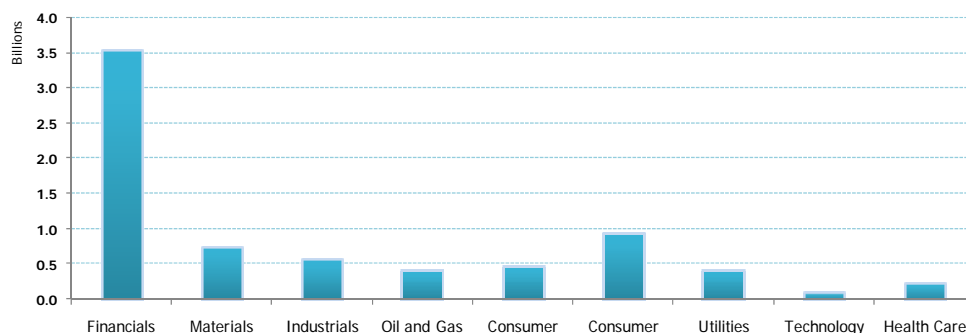


Figure 2: Sector Ranking by Floated Market Cap

| No | CBV Indices           | Index 03/31/08 | Market Cap (USD) |
|----|-----------------------|----------------|------------------|
| 1  | CBV-Financials        | 101.01         | 185,315,835      |
| 2  | CBV-Consumer Goods    | 87.99          | 79,709,130       |
| 3  | CBV-Materials         | 57.48          | 34,666,504       |
| 4  | CBV-Industrials       | 75.84          | 32,789,900       |
| 5  | CBV-Consumer Services | 32.78          | 30,621,130       |
| 6  | CBV-Utilities         | 86.03          | 29,615,010       |
| 7  | CBV-Oil and Gas       | 82.08          | 29,454,810       |
| 8  | CBV-Health Care       | 34.30          | 6,984,630        |
| 9  | CBV-Technology        | 116.64         | 4,361,020        |

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

#### By Market Capitalization

##### Market Cap

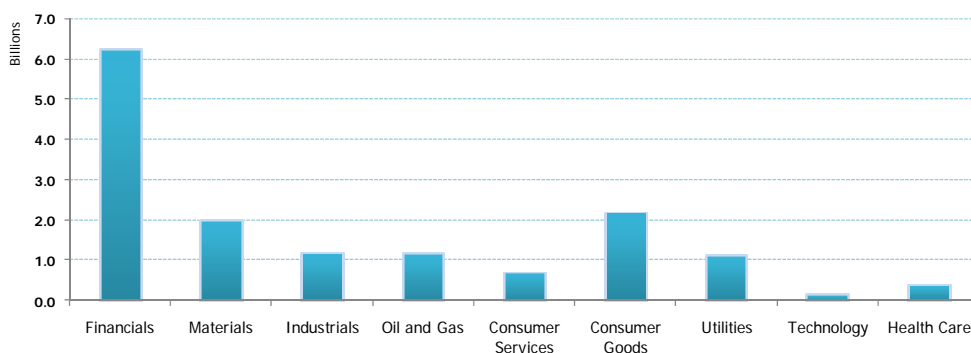


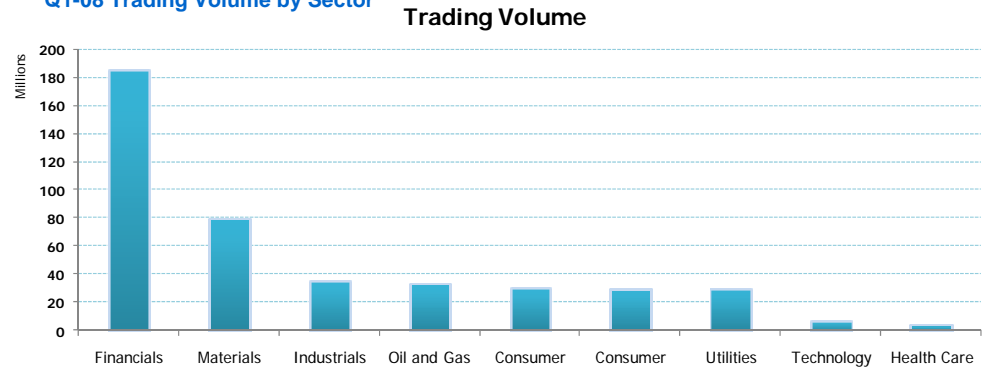
Figure 3: Sector Ranking by Market Cap

| No | CBV Indices           | Index 03/31/08 | Market Cap (USD) |
|----|-----------------------|----------------|------------------|
| 1  | CBV-Financials        | 101.01         | 6,242,067,992    |
| 2  | CBV-Consumer Goods    | 86.03          | 2,186,654,578    |
| 3  | CBV-Materials         | 87.99          | 2,005,355,859    |
| 4  | CBV-Oil and Gas       | 75.84          | 1,179,012,268    |
| 5  | CBV-Industrials       | 57.48          | 1,168,595,576    |
| 6  | CBV-Utilities         | 82.08          | 1,121,735,079    |
| 7  | CBV-Consumer Services | 32.78          | 689,985,050      |
| 8  | CBV-Health Care       | 116.64         | 395,444,597      |
| 9  | CBV-Technology        | 34.30          | 183,032,861      |

Table 3: Sector Ranking by Market Cap  
Source: CBV Index Co.

## By Sector (cont)

### Q1-08 Trading Volume by Sector

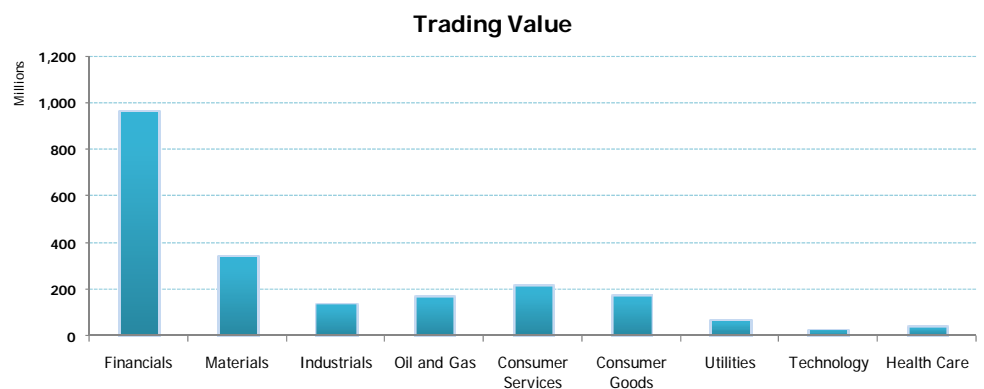


**Figure 4: Sector Ranking by Trading Volume**

| No | CBV Indices           | Index 03/31/08 | Trading Volume (USD) |
|----|-----------------------|----------------|----------------------|
| 1  | CBV-Financials        | 101.01         | 185,315,835          |
| 2  | CBV-Consumer Services | 87.99          | 79,709,130           |
| 3  | CBV-Oil & Gas         | 57.48          | 34,666,504           |
| 4  | CBV-Consumer Goods    | 75.84          | 32,789,900           |
| 5  | CBV-Industrials       | 32.78          | 30,621,130           |
| 6  | CBV-Materials         | 86.03          | 29,615,010           |
| 7  | CBV-Utilities         | 82.08          | 29,454,810           |
| 8  | CBV-Technology        | 34.30          | 6,984,630            |
| 9  | CBV-Healthcare        | 116.64         | 4,361,020            |

**Table 4: Sector Ranking by Trading Volume**  
Source: CBV Index Co.

### Q1-08 Trading Value by Sector



**Figure 5: Sector Ranking by Trading Value**

| No | CBV Indices           | Index 03/31/08 | Trading Value (USD) |
|----|-----------------------|----------------|---------------------|
| 1  | CBV-Financials        | 101.01         | 965,995,995         |
| 2  | CBV-Materials         | 87.99          | 341,000,170         |
| 3  | CBV-Consumer Services | 32.78          | 219,993,757         |
| 4  | CBV-Consumer Goods    | 86.03          | 175,969,570         |
| 5  | CBV-Oil and Gas       | 75.84          | 169,633,919         |
| 6  | CBV-Industrials       | 57.48          | 140,530,396         |
| 7  | CBV-Utilities         | 82.08          | 72,211,523          |
| 8  | CBV-Health Care       | 116.64         | 47,132,506          |
| 9  | CBV-Technology        | 34.30          | 27,289,748          |

**Table 5: Sector Ranking by Trading Value**  
Source: CBV Index Co.

## By Sector (cont.)

### By % Change

| No | CBV-Sector Indices    | 03/31/08 | 01/02/08 | Change | % Change |
|----|-----------------------|----------|----------|--------|----------|
| 1  | CBV-Health Care       | 116.64   | 173.49   | -56.85 | -32.77%  |
| 2  | CBV-Utilities         | 82.08    | 127.76   | -45.68 | -35.75%  |
| 3  | CBV-Materials         | 87.99    | 141.86   | -53.87 | -37.98%  |
| 4  | CBV-Consumer Goods    | 86.03    | 139.16   | -53.12 | -38.18%  |
| 5  | CBV-Oil and Gas       | 75.84    | 130.19   | -54.35 | -41.75%  |
| 6  | CBV-Financials        | 101.01   | 174.13   | -73.12 | -41.99%  |
| 7  | CBV-Industrials       | 57.48    | 117.77   | -60.29 | -51.19%  |
| 8  | CBV-Consumer Services | 32.78    | 76.73    | -43.96 | -57.28%  |
| 9  | CBV-Technology        | 34.30    | 96.28    | -61.98 | -64.37%  |

Table 6: Sector Ranking by % Change  
Source: CBV Index Co.

## By Size

| STT | CBV Indices   | 03/31/08 | 01/02/08 | Change | % Change |
|-----|---------------|----------|----------|--------|----------|
| 1   | CBV-Large Cap | 76.07    | 133.93   | -57.86 | -43.20%  |
| 2   | CBV-Mid Cap   | 80.83    | 154.33   | -73.51 | -47.63%  |
| 3   | CBV-Small Cap | 82.94    | 165.93   | -82.99 | -50.01%  |

Table 7: Ranking by Size  
Source: CBV Index Co.

## By Style

| STT | CBV Indices         | 12/28/07 | 10/1/07 | Change | % Change |
|-----|---------------------|----------|---------|--------|----------|
| 1   | CBV-SmallCap-Value  | 114.97   | 193.42  | -78.44 | -40.56%  |
| 2   | CBV-LargeCap-Growth | 78.33    | 132.17  | -53.84 | -40.74%  |
| 3   | CBV-MidCap-Value    | 90.26    | 160.42  | -70.16 | -43.74%  |
| 4   | CBV-MidCap-Growth   | 74.08    | 148.35  | -74.27 | -50.06%  |
| 5   | CBV-LargeCap-Value  | 54.64    | 109.72  | -55.08 | -50.02%  |
| 6   | CBV-SmallCap-Growth | 57.30    | 149.23  | -91.93 | -61.61%  |

Table 8: Ranking by Style  
Source: CBV Index Co.

## By Company

### By Trading Value

| No | Ticker | Sector            | Q1Y08 Trading Value | Q4Y07 Trading Value | % Change |
|----|--------|-------------------|---------------------|---------------------|----------|
| 1  | SSI    | Financials        | 4,913,739           | 8,832,514           | -44.37%  |
| 2  | STB    | Financials        | 4,633,397           | 4,313,014           | 7.43%    |
| 3  | DPM    | Materials         | 3,722,415           | 3,142,094           | 18.47%   |
| 4  | FPT    | Consumer Services | 2,570,445           | 2,972,569           | -13.53%  |
| 5  | ACB    | Financials        | 2,560,725           | 3,170,732           | -19.24%  |

Table 9: Company Ranking by Trading Value  
Source: CBV Index Co.

### By Market Cap

| No | Ticker | Sector         | Market Cap 03/31 | Market Cap 01/02 | % Change |
|----|--------|----------------|------------------|------------------|----------|
| 1  | ACB    | Financials     | 1,527,294,594    | 2,399,325,202    | -36.34%  |
| 2  | VNM    | Consumer Goods | 1,307,052,800    | 1,978,566,165    | -33.94%  |
| 3  | DPM    | Materials      | 1,155,983,976    | 1,760,140,210    | -34.32%  |
| 4  | STB    | Financials     | 1,033,118,463    | 1,796,122,396    | -42.48%  |
| 5  | KBC    | Financials     | 969,454,181      | 1,101,652,479    | -12.00%  |

Table 10: Company Ranking by Market Cap  
Source: CBV Index Co.

### By Floated Market Cap

| No | Ticker | Sector            | Floated MC 03/31 | Floated MC 01/02 | % Change |
|----|--------|-------------------|------------------|------------------|----------|
| 1  | ACB    | Financials        | 1,247,442,441    | 1,959,687,475    | -36.34%  |
| 2  | VNM    | Consumer Goods    | 562,108,356      | 850,897,971      | -33.94%  |
| 3  | VPL    | Consumer Services | 484,331,341      | -                | -        |
| 4  | KBC    | Financials        | 419,024,041      | 476,163,683      | -12.00%  |
| 5  | STB    | Financials        | 411,698,635      | 694,560,530      | -40.73%  |

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

### Top Performers

| No | Ticker | Sector            | Index 03/31 | Index 01/02 | % Change |
|----|--------|-------------------|-------------|-------------|----------|
| 1  | PMS    | Oil & Gas         | 119.97      | 116.42      | 3.05%    |
| 2  | HSC    | Consumer Services | 553.93      | 541.22      | 2.35%    |
| 3  | BT6    | Industrials       | 124.80      | 122.72      | 1.69%    |
| 4  | NVC    | Materials         | 97.30       | 0.00*       | -2.70%   |
| 5  | DBC    | Oil & Gas         | 96.55       | 0.00*       | -3.45%   |

Table 12: Top Performers  
Source: CBV Index Co.

### Worst Performers

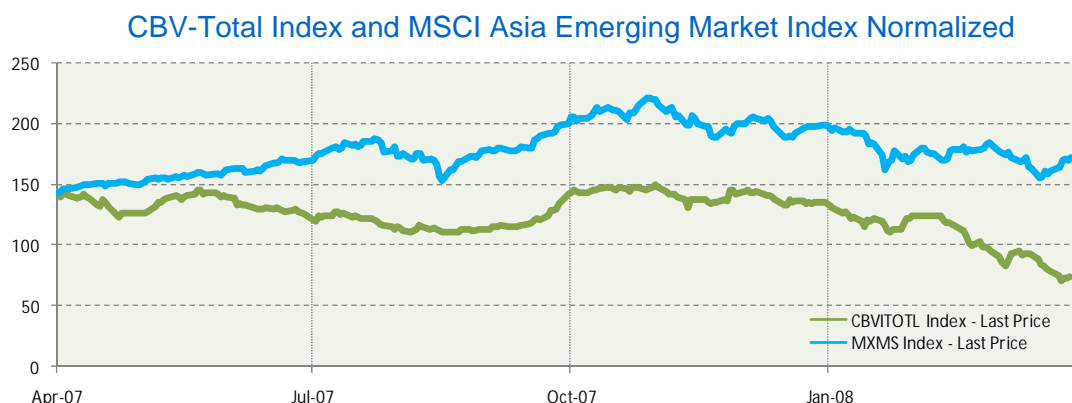
| No | Ticker | Sector      | Index 03/31 | Index 01/02 | % Change |
|----|--------|-------------|-------------|-------------|----------|
| 1  | RCL    | Industrials | 39.00       | 170.39      | -77.11%  |
| 2  | PVE    | Industrials | 22.98       | 100.00      | -77.02%  |
| 3  | S64    | Industrials | 259.86      | 1080.94     | -75.96%  |
| 4  | S99    | Industrials | 665.26      | 2662.22     | -75.01%  |
| 5  | MIC    | Materials   | 19.99       | 76.22       | -73.77%  |

Table 13: Worst Performers  
Source: CBV Index Co.



## Analysis

### Overview



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

*Vietnam stock market represents below 2% of the world portfolio, too small to get much influence from international market movement.*

The Vietnam stock market continued its downward trend well into 2008, posting a loss of -44.34% compared with -5.11% average of other emerging markets. Within three months, the CBV-Total Index fell by 60.76 points to 74.29, well below its starting point of 100 at the beginning of 2007. This divergence of Vietnam stock market from the overall trend in Asia and else where in the world has led us to believe that Vietnam stock market has a weak linkage with international markets. Even though Vietnam securities are included in several frontier stock market indices by renowned ETF companies such as MSCI and S&P, they are not present in the Russell Global Index that captures 98% of the investable stock universe. This is because none of them meets Russell's liquidity test that requires at least USD 150,000 daily trading value and above 50% active trading days in 2007. Therefore, with market cap now around 22 USD billion, Vietnam stock market represents below 2% of the world portfolio, too small to get much influence from international market movement.

*Current foreign ownership limit of 30% for banking sector and 49% for others in those bluest of blue chips is often near maximum, resulting in very low liquidity for foreign equity investment.*

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, the whole thing has started to change since early 2008 when stock prices dropped dramatically instead of soaring high in any month of Q1Y08. In February alone, the market posted a loss of 23.58% while January and March saw a loss of 18% and 8.4%, respectively. We believe that the seasonal effect becomes less pronounced largely because of structural changes in the economy. Since the government plays an important role in the market, investors react in a fast manner to any policy directives made by the authorities. It is believed that monetary policy in Vietnam operates with a very short time lag of 6-9 months, compared with a longer time lag of one to three years in most developed markets.

Also, it is important to note that state ownership in the top 50 companies in the CBV-Index, which covers almost 80% of Vietnam listed equity market cap and 70% of daily trading value, is still significant (currently around 33.6%). This provides strong leverage to the market since companies owned by the state are believed to use up to 80% of domestic loans and 70% of foreign loans. Once again, this suggests that the market is still much dependent on government policies. government policies as already emphasized in our previous report.

### Issues to be addressed...

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

1. The answer to one of the most controversial questions: Which investment strategy is more profitable in Vietnam stock market, contrarian or momentum? A new discovery of Vietnam market features.
2. What is current market valuation (P/E and P/BV compared with previous quarters) and current market momentum?
3. Is current market correction good or bad? How will Vietnamese companies restructure their own businesses after financial market slump? Will long term profits be offered to offshore foreign companies in this situation?
4. Quarterly review of Vietnam market breadth, one of the most influential factors determining the success or failure of active portfolio managers.
5. The power of indexation, the CBV Indices, in market prediction as they have shown in the previous year as one of the most effective tools that help investors make solid investments while having the least exposure to market risks.
6. Investment recommendation in terms of market size, style and sector as usually found at the end of our research highlights.

## 1. Momentum and the Efficient Market Hypothesis

*According to the Efficient Market Hypothesis (EMH), stocks are always traded at their fair value on stock exchanges, making it impossible for investors to find undervalued stocks or to try to predict trends in the market through either fundamental or technical analysis (Investopedia).*

*Momentum strategies rely on short-term movements in prices and recommend buying past winners and selling past losers. In contrast, contrarian strategies are based on negative serial correlation in stock prices such that selling winners and buying losers generate abnormal profits.*

In Q4Y07 report, we supported the notion that Vietnam stock markets are driven by momentum rather than fundamentals. This quarter we go deeper into that area of research by testing the profitability of trading strategies in Vietnam stock market in short to medium term (3-12 months). The two trading methodologies we refer to are momentum trading and contrarian strategies – also known as the two challenges to the Efficient market Hypothesis.

In our Price Momentum Model, we form portfolios on the basis of past returns, with the top batch of the ranked stocks labeled the “loser” portfolio, and the bottom the “winner” portfolio. The EMH predicts that these winner-loser portfolios will yield zero profits. However, if the returns on these portfolios are significantly different from zero (either positive or negative), we can cast doubt on the existence of the EMH at the weak-form level.

**Methodology:** The trading strategy consists of three basic steps. First, individual stocks are ranked according to monthly compound returns in the past J months. We then form a winner-loser portfolio whereby an investor goes short on the loser portfolio and long on the winner portfolio for the subsequent K months. The third and final step of the trading rule is to determine the profits of a winner minus loser portfolio where the mean monthly returns from the past loser portfolios are subtracted from mean monthly returns of past winner portfolio. The strategies are repeated every month and applied to all securities with non-missing returns in the CBV-Index (top 50 companies in terms of liquidity and market capitalization) between January 2007 and March 2008. The reason for choosing 2007-2008 as a sample period is because before 2007, Vietnam stock market was too small with few companies listed on the stock exchanges. Besides, securities laws were not applied to the stock market until 01/01/2007.

*Please refer to Table 1 for a detailed breakdown of returns based on non-overlapping observations from January 2007 to March 2008 with a J holding period where the J = 3, 6, 9, 12. The table then reports the profitability of each of the J strategies over the subsequent K horizons where the K horizons range from 3 to 12 months.*

Contrarian strategies seem to outperform momentum strategies in medium term (from 6 to 12 months) while in the short term (3 months), momentum strategies seem to outperform

**Findings:** The results show a total of 5 trading strategies that are positive and 5 strategies that are negative. *Our discovery is that contrarian strategies seem to outperform momentum strategies in medium term (from 6 to 12 months) while in the short term (3 months), momentum strategies seem to outperform contrarian strategies. This finding seems to be inconsistent with that in most developed markets where momentum effect is often prevalent in short to immediate term (3 to 12 months) while contrarian profit is usually a long-term phenomenon (3 to 5 years). Since the average returns of these strategies are significantly different from zero, we doubt that weak-form EMH exists in the current Vietnam stock market. As such, it should be possible for investors to outperform the overall market through expert stock selection and market timing, or in Benjamin Graham's words, **"to profit from the corrective forces of an inefficient market"**.*

However, that neither the winner portfolios nor the loser portfolios yield positive returns in the sample period (2007-2008) implies that the two trading strategies are usually not profitable in market downturns in short to medium term. This suggests that investors should think long-term rather than short-term when investing in the stock market at this period of time.

Neither the winner portfolios nor the loser portfolios yield positive returns in the sample period (2007-2008) implies that the two trading strategies are usually not profitable in market downturns in short to medium term.

| Monthly returns on non-overlapping portfolios over time horizons from Jan 07 to Mar 08 |                          |                      |                        |          |          |    |
|--|--------------------------|----------------------|------------------------|----------|----------|----|
|  |                          | J month past returns | K month holding period |          |          |    |
|  |                          |                      | 3                      | 6        | 9        | 12 |
| 3  | Loser portfolio          | -2.69%               | -1.87%                 | -2.58%   | -19.25%  |    |
|  | Standard deviation       | 0.093447             | 0.056964               | 0.036005 | 0.062063 |    |
|  | No. Observations         | 50                   | 35                     | 20       | 5        |    |
|  | Winner portfolio         | -1.28%               | -0.41%                 | -1.26%   | -25.70%  |    |
|  | Standard deviation       | 0.1456               | 0.099502               | 0.077677 | 0.036526 |    |
|  | No. Observations         | 50                   | 35                     | 20       | 5        |    |
|  | Winner - loser portfolio | 1.41%                | 1.46%                  | 1.33%    | -6.45%   |    |
|  | Test statistic           | 0.577618             | 0.753609               | 0.692922 | -2.00359 |    |
| 6  | Loser portfolio          | -3.94%               | -4.21%                 | -5.74%   | -        |    |
|  | Standard deviation       | 0.093212             | 0.06582                | 0.047189 | -        |    |
|  | No. Observations         | 32                   | 20                     | 5        | -        |    |
|  | Winner portfolio         | -2.49%               | -4.85%                 | -8.97%   | -        |    |
|  | Standard deviation       | 0.124975             | 0.084957               | 0.032157 | -        |    |
|  | No. Observations         | 32                   | 20                     | 5        | -        |    |
|  | Winner - loser portfolio | 1.45%                | -0.64%                 | -3.23%   | -        |    |
|  | Test statistic           | 0.00256              | -0.266                 | -1.26657 | -        |    |
| 9  | Loser portfolio          | -11.62%              | -12.58%                | -        | -        |    |
|  | Standard deviation       | 0.076445             | 0.054582               | -        | -        |    |
|  | No. Observations         | 17                   | 5                      | -        | -        |    |
|  | Winner portfolio         | -8.90%               | -14.62%                | -        | -        |    |
|  | Standard deviation       | 0.090464             | 0.029819               | -        | -        |    |
|  | No. Observations         | 17                   | 5                      | -        | -        |    |
|  | Winner - loser portfolio | 2.72%                | -2.04%                 | -        | -        |    |
|  | Test statistic           | 0.945963             | -0.73301               | -        | -        |    |
| 12   | Loser portfolio          | -23.91%              | -                      | -        | -        |    |
|  | Standard deviation       | 0.009576             | -                      | -        | -        |    |
|  | No. Observations         | 4                    | -                      | -        | -        |    |
|  | Winner portfolio         | -24.34%              | -                      | -        | -        |    |
|  | Standard deviation       | 0.050318             | -                      | -        | -        |    |
|  | No. Observations         | 4                    | -                      | -        | -        |    |
|  | Winner - loser portfolio | -0.43%               | -                      | -        | -        |    |
|  | Test statistic           | -0.16744             | -                      | -        | -        |    |

Table 14: detailed breakdown of returns based on non-overlapping observations

(The zero-investment portfolios are constructed in the following manner: at the end of each J-month period, all the stocks are ranked in ascending order based on their J-month monthly compounded returns ( $J = 3, 6, 9, 12$ ). The stocks are then assigned to 1 of 10 equally weighted relative strength portfolios, where 1 represents the loser portfolio (i.e., the stocks with the lowest past J-month performance), and 10 represents the winner portfolio (i.e., the stocks with the highest past J-month performance). These portfolios are then held for a subsequent K-month ( $K = 3, 6, 9, 12$ ). This gives us a total of 16 momentum strategies in operation.)

*All indicators suggest that Vietnam stock market's momentum has deteriorated since November 2007. Declining stock prices make the market less expensive, but it also implies weaker momentum characteristics.*

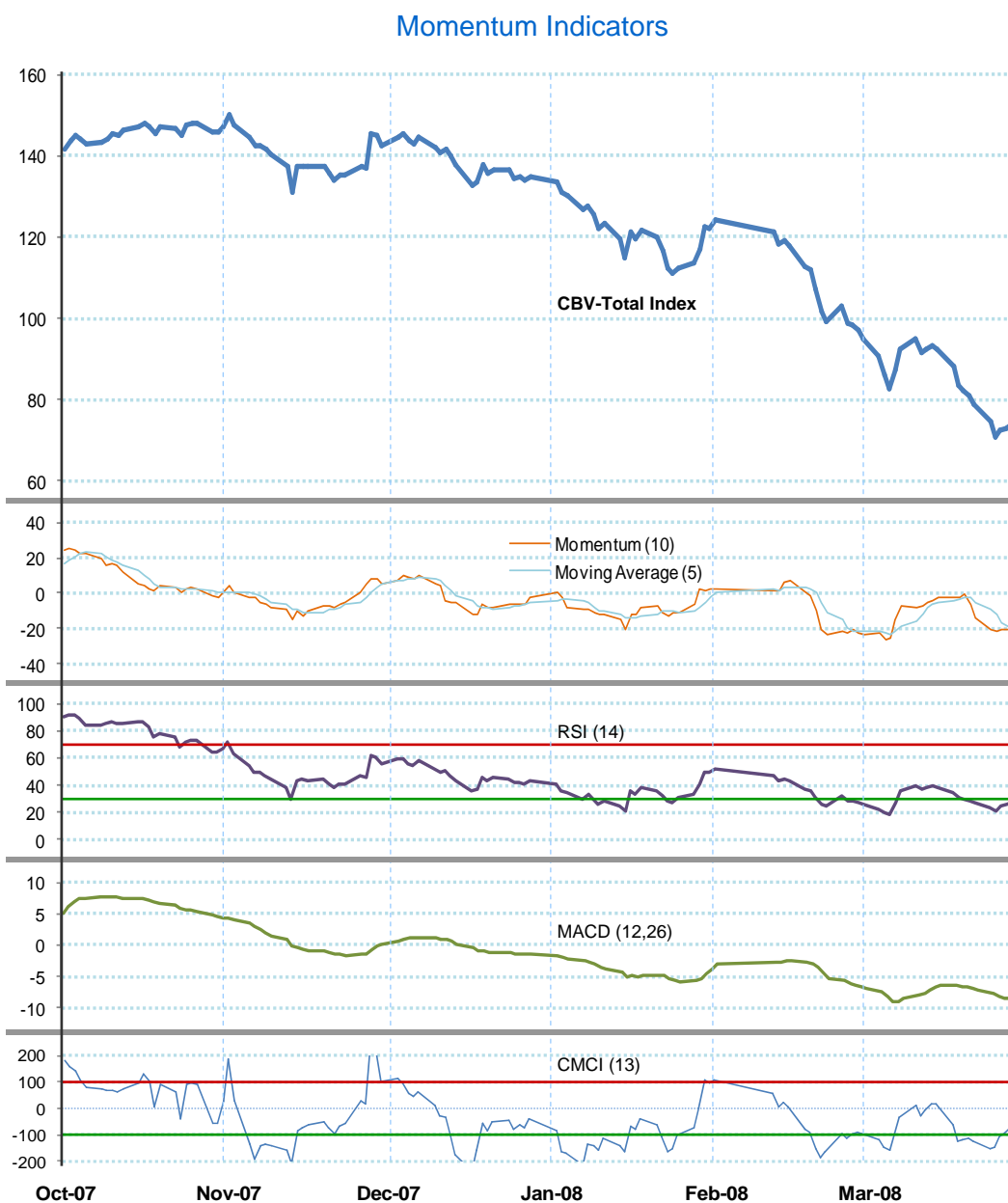


Figure 7: Momentum Indicators  
Source: Bloomberg Finance L.P., CBV Index Co.

## 2. Valuation

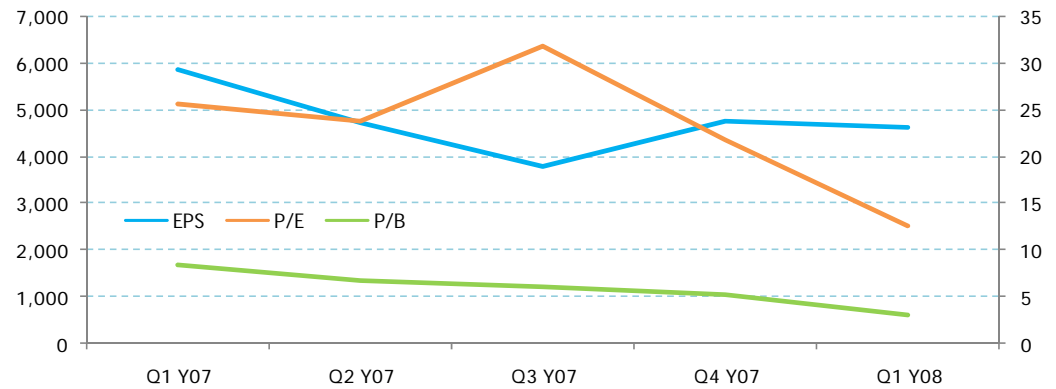


Figure 8: CBV-Index P/E, P/B and EPS  
Source: CBV Index Co.

| CBV-Index | Q1 Y07 | Q2 Y07 | Q3 Y07 | Q4 Y07 | Q1 Y08 |
|-----------|--------|--------|--------|--------|--------|
| P/E       | 25.57  | 23.77  | 31.75  | 21.77  | 12.63  |
| P/B       | 8.46   | 6.83   | 6.07   | 5.14   | 2.98   |
| EPS       | 5,861  | 4,705  | 3,770  | 4,743  | 4,606  |

Table 15: CBV-Index Basic Ratios  
Source: CBV Index Co.

| No | Country     | Index                    | P/E Q1 Y08 | P/E Q4 Y07 |
|----|-------------|--------------------------|------------|------------|
| 1  | China       | Shanghai Composite Index | 28.07      | 48.81      |
| 2  | India       | BSE500 Index             | 20.24      | 29.6       |
| 3  | Taiwan      | Taiex Index              | 18.36      | 18.68      |
| 4  | Indonesia   | Jakarta Index            | 17.11      | 18.52      |
| 5  | Thailand    | Thai Index               | 15.46      | 18.14      |
| 6  | South Korea | KOSPI Index              | 14.23      | 14.51      |
| 7  | Malaysia    | KLCI Index               | 13.65      | 16.29      |
| 8  | Hong Kong   | Hang Seng Index          | 13.32      | 17.42      |
| 9  | Vietnam     | CBV-Index                | 12.63      | 21.77      |
| 10 | Philippines | PSEI Index               | 12.09      | 14.22      |
| 11 | Singapore   | Straits Times Index      | 10.77      | 12.31      |

Table 16: Peer markets P/E ratio  
Source: Bloomberg Finance L.P., CBV Index Co.

| No | Country     | Index                    | PB Q1 Y08 | PB Q4 Y07 |
|----|-------------|--------------------------|-----------|-----------|
| 1  | China       | Shanghai Composite Index | 4.51      | 7.367     |
| 2  | India       | BSE500 Index             | 4.11      | 5.925     |
| 3  | Vietnam     | CBV-Index                | 2.98      | 5.14      |
| 4  | Hong Kong   | Hang Seng Index          | 2.29      | 3.786     |
| 5  | Taiwan      | Taiex Index              | 2.28      | 1.901     |
| 6  | Philippines | PSEI Index               | 2.19      | 1.715     |
| 7  | Indonesia   | Jakarta Index            | 2.11      | 2.484     |
| 8  | Thailand    | Thai Index               | 2.11      | 2.805     |
| 9  | Malaysia    | KLCI Index               | 1.96      | 5.14      |
| 10 | Singapore   | FSSTI Index              | 1.89      | 2.602     |
| 11 | South Korea | KOSPI Index              | 1.52      | 2.076     |

Table 17: Peer markets PB ratio  
Source: Bloomberg Finance L.P., CBV Index Co.

*Estimated 12-month forward PE for CBV-index is 10x, assuming EPS growth of 20% for 2008 and 20% for 2009*

By the end of Q1Y08, 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. However, on the other valuation metric (Price-to-earnings-per-share), Vietnam stock market is now rather cheap in comparison with regional peers. As of March 31, CBV-Index P/E stood at 12.63, well below MSCI Asia ex. Japan P/E of 15.02 (Bloomberg). Estimated 12-month forward PE for CBV-index is 10x, assuming EPS growth of 20% for 2008 and 20% for 2009. Since retail investor speculation was the main driving force of “irrational exuberance” in 2007, market boom was unsustainable and soon followed by a burst. Now that the boom period is over, many stocks are brought closer to their fair value or even deemed undervalued, making them attractive picks for long-term investors who are willing to take on further volatility in the short run. Once again we emphasize that the essentiality for a successful investment in Vietnam is long term interest rather than short term greed.

As such, we believe that market corrections are rather good than bad for the economy since it slows down speculation by domestic investors and stops the wave of short-term investment into Vietnam by foreign short-termists. Besides, with reasonable valuation and promising economic growth, qualified foreign institutional investors, especially value ones, should be welcome to Vietnam stock market more than ever before since they will help stabilize the speculative waves made by retail investors, who should learn by now that they had better rely their money management on the hand of professional financial institutions than on their inexperienced hand. As stated in our previous research, the China stock market provides many useful lessons for Vietnam securities authorities on encouraging more qualified institutional investors to enter the market, especially long term institutional investors.

*Companies and large corporations were straying too far from their core businesses and expanding into unrelated ones to chase short-term profit, which will eventually hurt their value in the long run*

Interestingly, we observe a downside valuation of many blue chips - just the way we predicted it would happen a year ago. In Q2Y07 research, we pointed out a trend that companies and large corporations were straying too far from their core businesses and expanding into unrelated ones to chase short-term profit, which will eventually hurt their value in the long run. History of stock markets worldwide suggests that big corporations and companies will prevail over small and medium ones only when they focus all resources on their core business. We also observe two dangerous trends that are taking roots in Vietnam big corporations now. One is short-term versus long term greed, and the other is institutional imperative. Big corporations become vulnerable when its management puts short-term interest above long term interest while blindly following



*Recent ranking statistics by The Banker (2007) show that only two Vietnamese banks can get into the top 1000 leading banks in the world, namely Vietcombank (541) and Vietinbank (formerly known as Incombank) (871)*

*The loss in the financial market will force many firms to return to their core businesses, which opens a window of opportunities for offshore firms to enter the market to buy and restructure Vietnamese business having problems in the short term at a good discount*

industry peers without making rational business decisions based on company inside information. Creating consistent long-term gains at the cost of immediate profits and the ability to overcome institutional imperative are two crucial features of an outstanding business according to Phillip Fisher, one of the greatest investors of all time. Look at the situation in Vietnam now, it is believed that only 30% of Corporations and SOEs are operating in business fields they have true core competencies while the rest 70% are involved in markets driven by short-term profit such as real estate and securities. That helps explain why very few Vietnamese brand names are recognized in international markets. To illustrate, recent ranking statistics by The Banker (2007) show that only two Vietnamese banks can get into the top 1000 leading banks in the world, namely Vietcombank (541) and Vietinbank (formerly known as Incombank) (871). The implication for this is that Vietnam enterprises would profit in the long term if the government further promotes such brands in international markets while establishing policies that force them to build regional and global brands to compete against rising competition in post-WTO era. This strategy has proved to be very successful in East Asian countries, such as Korea where the Samsung brand has strived to become the 25th most recognizable global brand in 2007 even though it was not yet recognized as a global brand in 2000.

Considering the de-valuation of many Vietnamese companies now underway, we expect to see a new wave of merger and acquisition (M&A) as well as business restructuring in Vietnam in the near future. After the market slumped about 45%, many firms investing in equity market are facing a big loss on the balance sheet while those issuing bonds with high coupon rate are bearing the burden of heavy interest payment. When taking two of these into account, companies will have to write off a significant amount of asset at year's end, resulting in a restructure of the whole business. The positive side of this is that the loss in the financial market will force many firms to return to their core businesses. And this is the time for offshore firms to enter the Vietnam market to buy and restructure Vietnamese business having problems in the short term at a good discount. And this is likely to bring them a huge profit in the future when Vietnam financial market booms once again.

### 3. Correlation

CBV-Financials shows the highest correlation to CBV-Total among all sector indices (86.34%), followed by CBV-Oil&Gas (82.23%) and CBV-Industrials (81.17%)

Below we show the 6 month correlation of daily returns between each CBV-Sector Index and CBV-Total, an index that represents Vietnam stock market. Overall, most sectors have undergone an increase in correlation after market corrections since late 2007. CBV-Financials shows the highest correlation to CBV-Total among all sector indices (86.34%), followed by CBV-Oil&Gas (82.23%) and CBV-Industrials (81.17%). On the other hand, CBV-Utilities, CBV-Consumer Goods and CBV-Healthcare show lower correlations to the market, but still remain higher than normal. Investors can look for diversification by finding sectors that don't move in line with the overall market, but should keep in mind that when the market has quick down moves, everything seems to get hit. As shown, a tighter correlation has been established between each CBV-sector index and the market over the past 6 months.

| Correlation           | R-squared |
|-----------------------|-----------|
| <b>CBV-Total</b>      | <b>1</b>  |
| CBV-Financials        | 0.863499  |
| CBV-Oil&Gas           | 0.822328  |
| CBV-Industrials       | 0.817786  |
| CBV-Materials         | 0.793551  |
| CBV-Technology        | 0.73479   |
| CBV-Consumer Services | 0.713603  |
| CBV-Healthcare        | 0.670813  |
| CBV-Consumer Goods    | 0.631674  |
| CBV-Utilities         | 0.561964  |

Table 18: Correlation to market returns: all sectors are positively correlated to overall market direction  
Source: CBV Index Co.

Table 19 below shows the cross-correlations of daily returns among CBV Sector indices that can give investors a good forecast on the co-moment of stock indices in the CBV Index Family, as well as provide opportunities to build well diversified portfolios.

|                   | Technology | Industrials | Oil&Gas     | Consumer Services | Utilities | Consumer Goods | Materials   | Financials | Healthcare |
|-------------------|------------|-------------|-------------|-------------------|-----------|----------------|-------------|------------|------------|
| Technology        | 1.00       |             |             |                   |           |                |             |            |            |
| Industrials       | 0.87       | 1.00        |             |                   |           |                |             |            |            |
| Oil&Gas           | 0.78       | <b>0.85</b> | 1.00        |                   |           |                |             |            |            |
| Consumer Services | 0.80       | <b>0.84</b> | 0.81        | 1.00              |           |                |             |            |            |
| Utilities         | 0.73       | 0.72        | 0.75        | 0.73              | 1.00      |                |             |            |            |
| Consumer Goods    | 0.76       | 0.77        | 0.79        | 0.77              | 0.86      | 1.00           |             |            |            |
| Materials         | 0.76       | <b>0.87</b> | <b>0.86</b> | 0.79              | 0.76      | 0.75           | 1.00        |            |            |
| Financials        | 0.81       | <b>0.87</b> | <b>0.88</b> | 0.82              | 0.71      | 0.73           | <b>0.90</b> | 1.00       |            |
| Healthcare        | 0.71       | 0.72        | 0.73        | 0.64              | 0.64      | 0.69           | 0.77        | 0.74       | 1.00       |

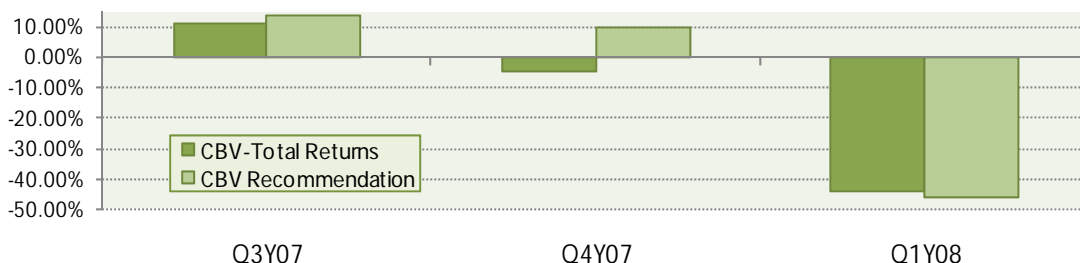
Table 19: Co-movement of CBV-Sector Index returns  
Source: CBV Index Co.

It seems that Financials, Materials, Industrials and Oil & Gas are strongly correlated to one another. Tight correlation has also been established between Industrials and Technology (0.87), Consumer Goods and Utilities (0.86), and Consumer Services and Industrials (0.84). Overall, most sectors seem to move in the same direction with each other and the market as a whole.

## Strategy Recommendation

### 1. Size

Regarding Size, CBV Recommendation outperformed the market in Q3 and Q4 Y07. However, we were some percents off the market in Q1

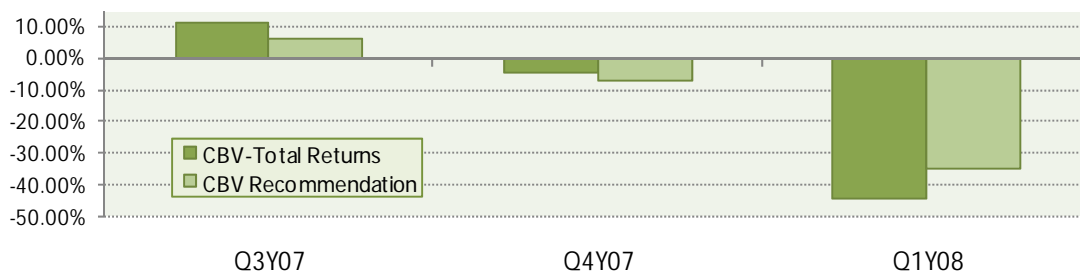


**Figure 8: CBV Size Based Recommendation versus Market**  
Source: Bloomberg Finance L.P., CBV Index Co.

History of big stock markets in the world suggests that large caps have the tendency to outperform small caps when the market narrows. In 2007, Vietnam stock market witnessed the out performance of small caps over large caps as market breadth was broad more often than narrow. However, market leadership has begun to change as more stocks were participating in the market's downward move than in upward move. In fact, we pointed out earlier this year that a transition from small caps to larger caps might be underway. At the end of March, the percentage of companies in the CBV-50 that outperformed the index fell to 35.7% from 51% at the end of 2007. As the market is likely to experience some more volatile months ahead, we believe market leadership would still be narrow. Thus, our size recommendation continues to be heavily in favor of large caps over small caps.

### 2. Style

Regarding style, CBV recommendation for Q1Y08 managed to outperform the market, despite its underperformance in Q3 and Q4Y07



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

Our Value Indices comprise of corporations which have the lowest Price/Book value and are usually considered "cheap". On the other hand, our Growth indices are made up of those which have the highest P/B value and are labeled "expensive" stocks. At the end of Q108, the difference between market prices and books values of companies on the stock exchanges was smaller than ever before, with the P/BV of CBV-Index down from 5.14 in 2007 to 2.98 as of March 31. However, this is still higher than some regional peers such as Malaysia (1.96), Singapore (1.89) and South Korea (1.52). Given that market uncertainty can adjust the difference between market prices and book values downward, investors should consider accumulating cheap and good quality stocks in the Value indices instead of following stocks in the Growth indices. The outperformance of Value stocks over Growth stocks in the past quarter seems to further reinforce our preference for value over growth.

### 3. Sector

| Sector                | Beta     |
|-----------------------|----------|
| CBV-Oil&Gas           | 1.015459 |
| CBV-Financials        | 0.983609 |
| CBV-Consumer Services | 0.95888  |
| CBV-Technology        | 0.877935 |
| CBV-Industrials       | 0.853295 |
| CBV-Healthcare        | 0.853269 |
| CBV-Materials         | 0.840844 |
| CBV-Utilities         | 0.805272 |
| CBV-Consumer Goods    | 0.763506 |

Interestingly, CBV-Oil & Gas is more volatile than the whole market, showing signs of losing its defensive qualities as seen in 2007

Table 20: 6 months Risk beta  
Source: CBV Index Co.

Table 20 ranks CBV-Sector Indices in terms of market risk from Oct 07 to Mar 08. As we would expect, defensive sectors such as Consumer Goods, Utilities and Healthcare are less risky than cyclical ones during market downturns and can be considered a safety zone for investors to hide during great volatility. It is interesting to note that CBV-Oil & Gas is more volatile than the whole market, showing sign of losing its defensive qualities as seen in 2007.

Generally, CBV Recommendation was in line with market movement in Q3 & Q4 Y07. In Q1Y08, our recommendation delivered a loss which was roughly 10% less than the whole market's.

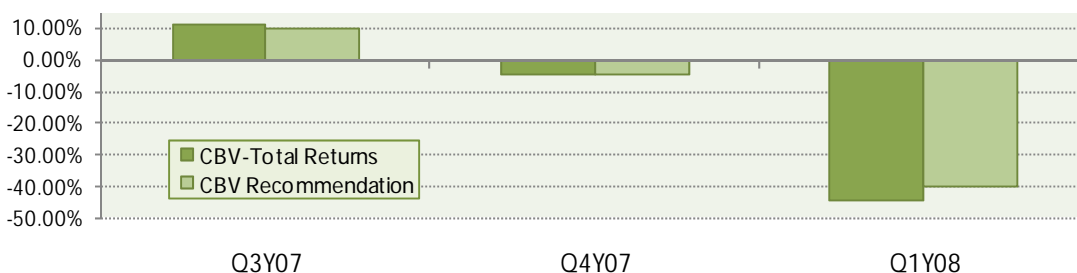


Figure 10: CBV Sector Based Recommendation versus Market  
Source: Bloomberg Finance L.P., CBV Index Co.

| Sector                | Q1Y08      | Q2Y08      |
|-----------------------|------------|------------|
| CBV-Oil&Gas           | Overweight | Neutral    |
| CBV-Financials        | Overweight | Neutral    |
| CBV-Consumer Services | Neutral    | Neutral    |
| CBV-Technology        | Neutral    | Neutral    |
| CBV-Industrials       | Neutral    | Neutral    |
| CBV-Healthcare        | Overweight | Overweight |
| CBV-Materials         | Overweight | Overweight |
| CBV-Utilities         | Neutral    | Overweight |
| CBV-Consumer Goods    | Overweight | Overweight |

Table 21: Sector Investment recommendation

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

1. These four sectors have the lowest beta risk among others while having the lowest correlation to the whole market.
2. Besides, they also yield higher return than others in Q1Y08.
3. They possess defensive qualities as observed in developed stock markets and Vietnam market as well.

## Summary of Investment Strategy

Table 22 below shows a summary of our investment strategy for Q2 Y08 by sector, size and style.

|                       | Q1Y08      | Q2Y08      |
|-----------------------|------------|------------|
| <b>By Sector</b>      |            |            |
| CBV-Oil&Gas           | Overweight | Neutral    |
| CBV-Financials        | Overweight | Neutral    |
| CBV-Consumer Services | Neutral    | Neutral    |
| CBV-Technology        | Neutral    | Neutral    |
| CBV-Industrials       | Neutral    | Neutral    |
| CBV-Healthcare        | Overweight | Overweight |
| CBV-Materials         | Overweight | Overweight |
| CBV-Utilities         | Neutral    | Overweight |
| CBV-Consumer Goods    | Overweight | Overweight |
| <b>By Size</b>        |            |            |
| Large Cap             | Neutral    | Overweight |
| Mid Cap               | Overweight | Neutral    |
| Small Cap             | Neutral    | Neutral    |
| <b>By Style</b>       |            |            |
| Value                 | Overweight | Overweight |
| Growth                | Neutral    | Neutral    |

Table 23: Q2Y08 Investment Strategy Summary

#### 4. Individual Stock Picks

| Sector             | Ticker | Company Name                              |
|--------------------|--------|---|
| CBV-Healthcare     | DMC    | Domesco Medical Import and Export JSC     |
|                    | DHG    | Hau Giang Pharmaceuticals JSC             |
|                    | IMP    | Imexpharm Pharmaceuticals JSC             |
| CBV-Materials      | DPM    | PetroVietnam Fertilizer and Chemicals JSC |
|                    | TRC    | Tay Ninh Rubber JSC                       |
|                    | BMP    | Binh Minh Plastics JSC                    |
|                    | HPG    | Hoa Phat Group                            |
| CBV-Utilities      | TBC    | Thac Ba HydroPower JSC                    |
|                    | PPC    | Pha Lai ThermoPower JSC                   |
|                    | VSH    | Vinh Son - Song Hinh HydroPower JSC       |
|                    | SJD    | Can Don HydroPower JSC                    |
| CBV-Consumer Goods | NKD    | North Kinh Do Food JSC                    |
|                    | TAC    | Tuong An Vegetable Oil JSC                |
|                    | VNM    | Vietnam Dairy Products JSC                |

Table 22: Individual Stock Picks Recommendation

## Analyst Certification

### CBV Bien Viet Securities

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We, CBV Indices Research, hereby certify that the views expressed in this research report accurately reflect our respective personal views. We also certify no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this research report.

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