

Investment opportunities in uncertain time

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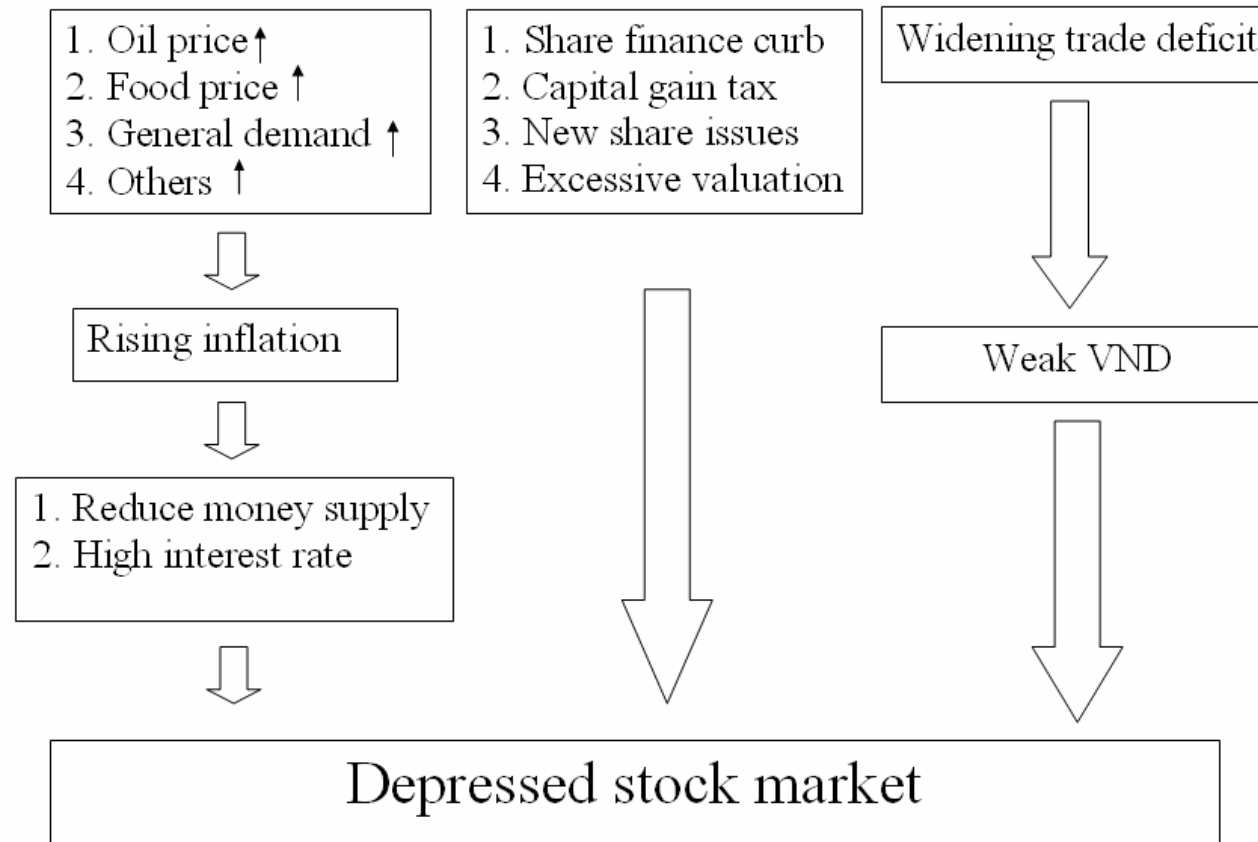
14 August 2008



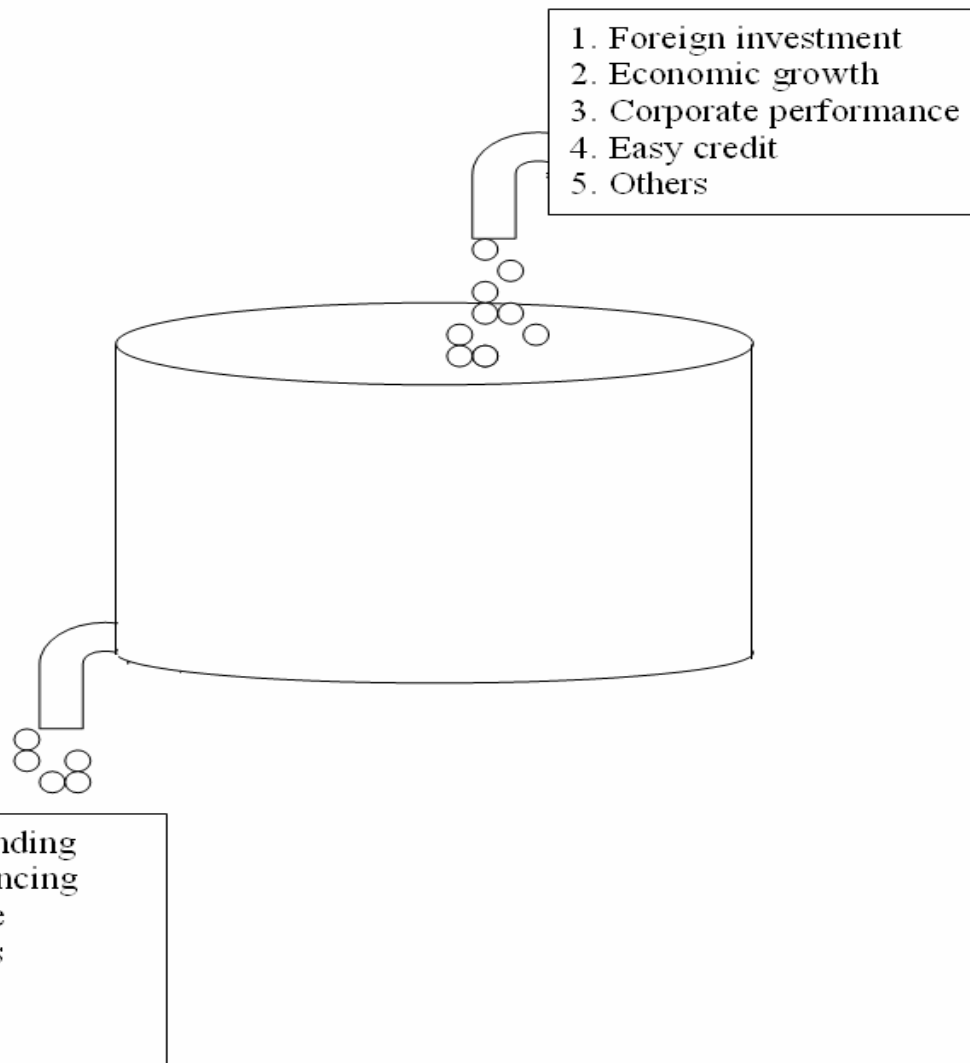
Content

1. What affects the stock market?
2. Where is the market heading?
3. What can we learn from the recent corporate earnings results?
4. What are the investment opportunities?

What affects the Vietnam stock market?



Liquidity & stock market

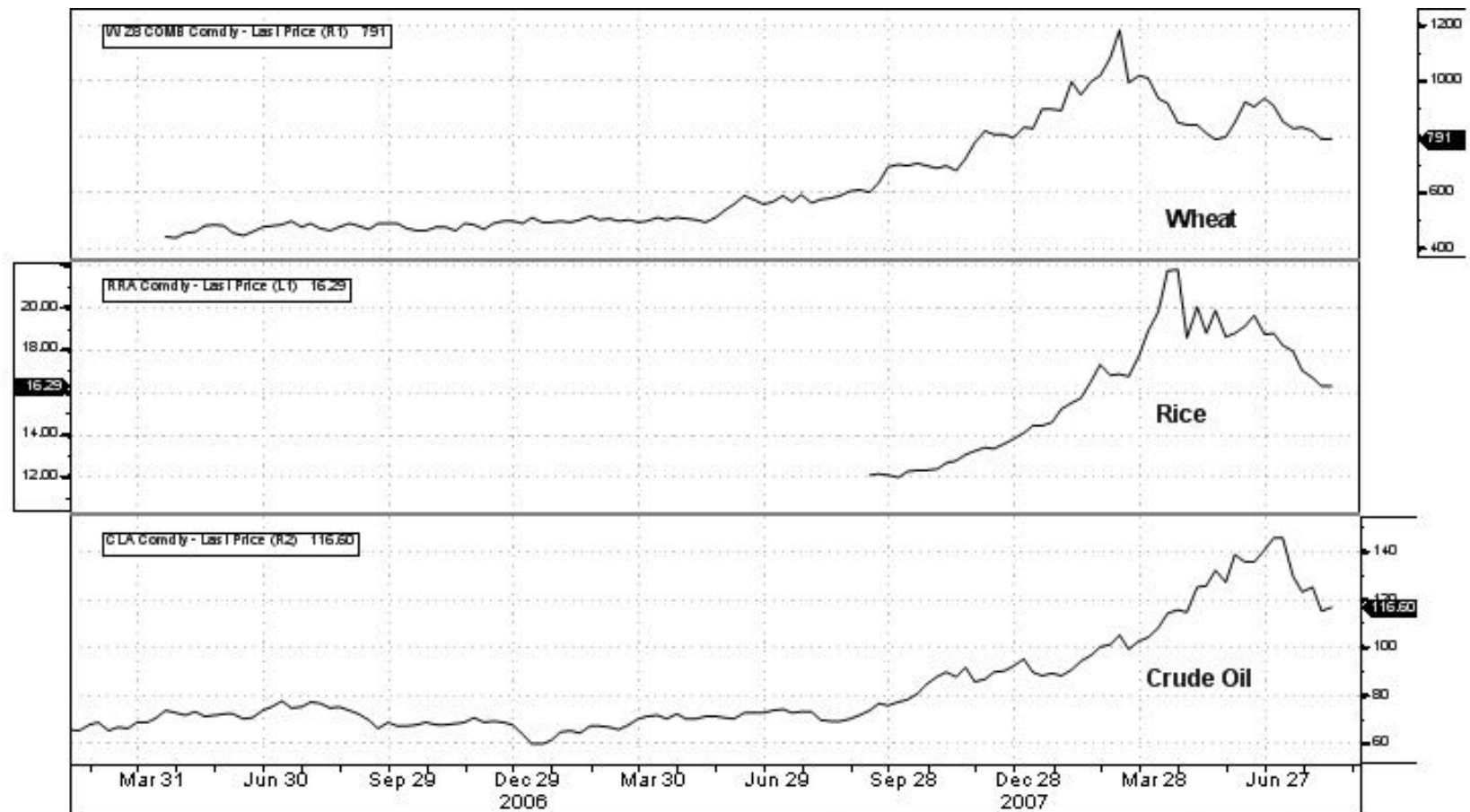


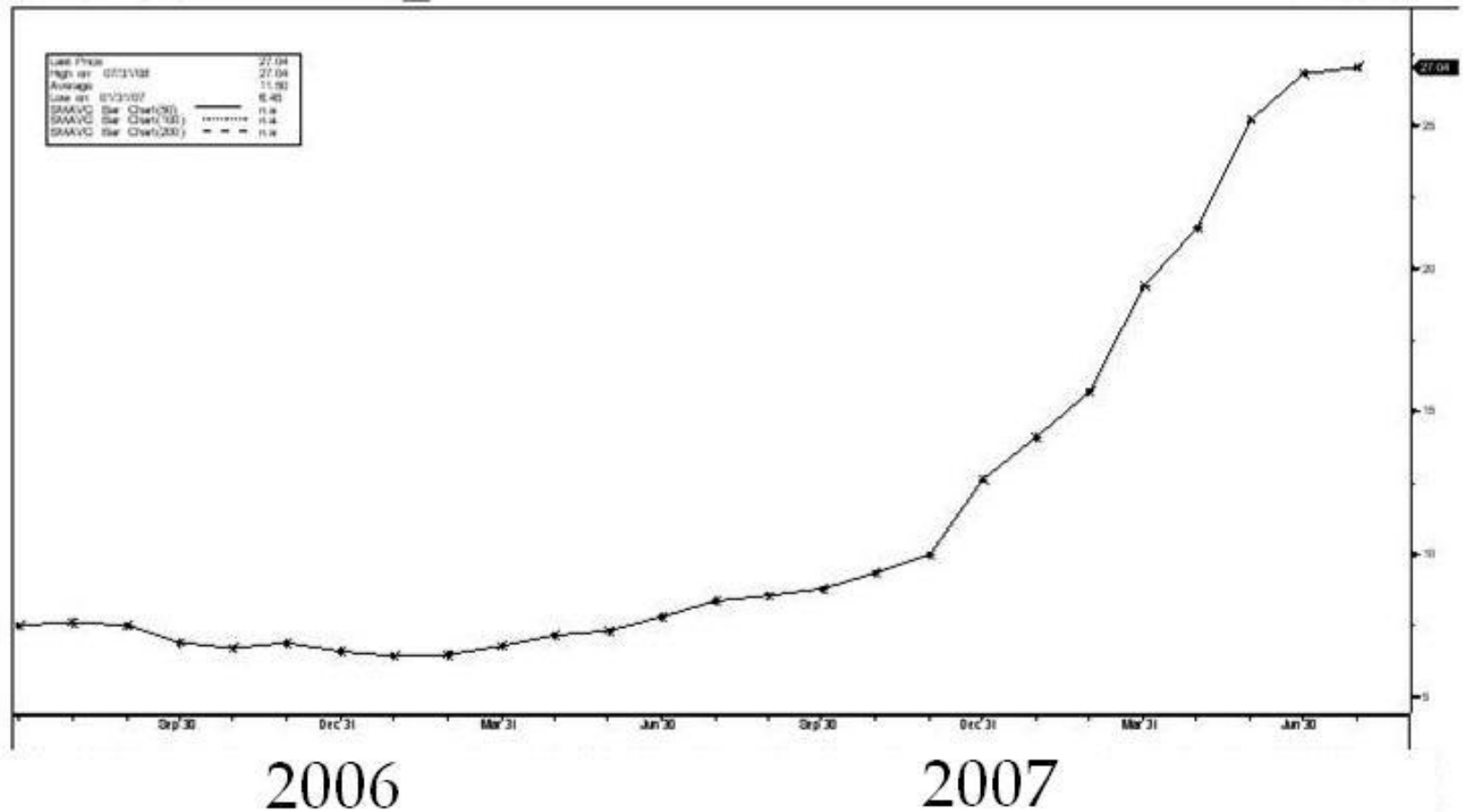


Where is the market heading?

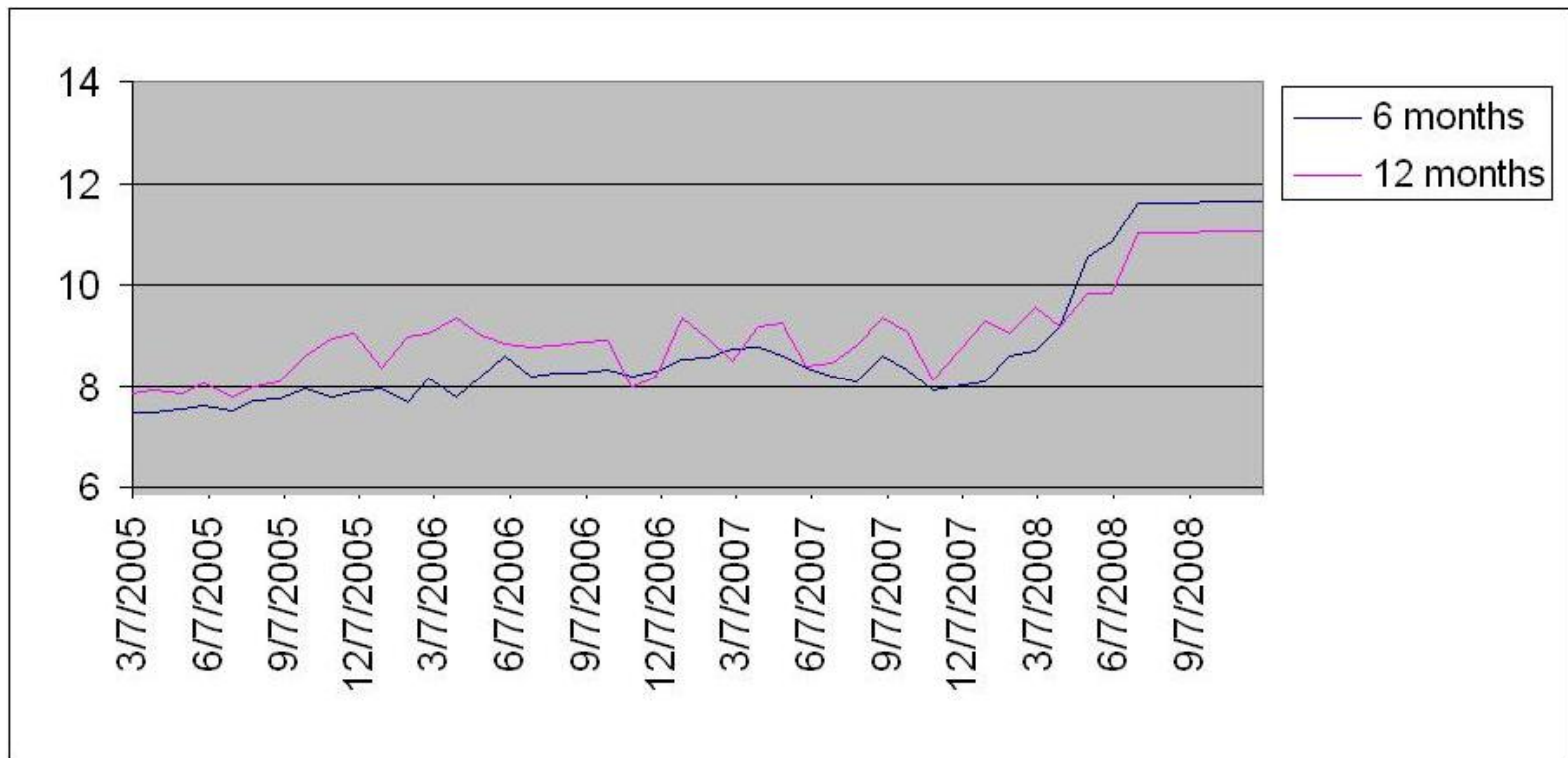
1. Inflation
2. Interest rate
3. Economic growth
4. Market valuation

Commodity prices

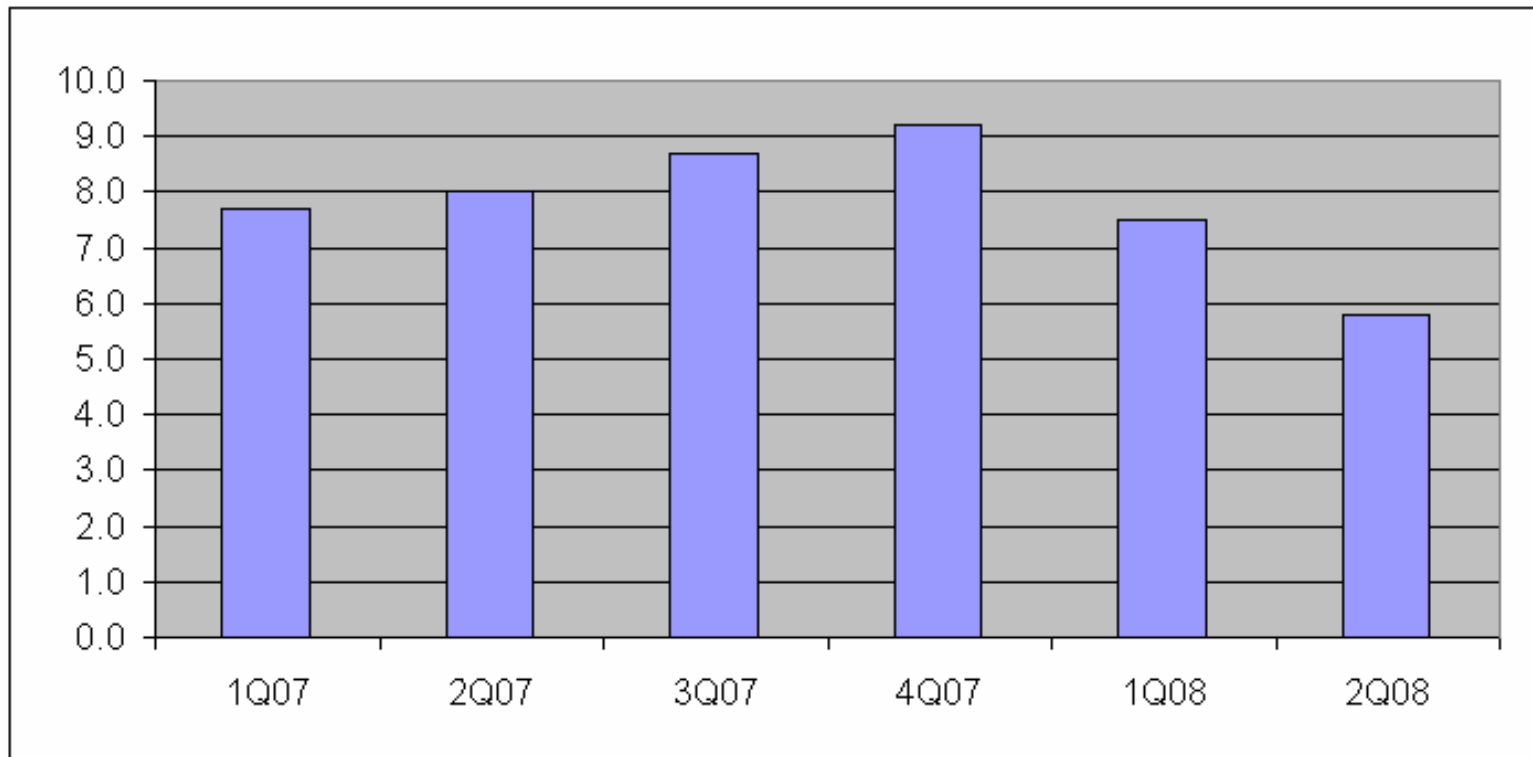




Interest rates – VN inter-bank rates



Vietnam GDP growth



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Market Valuation

Price Earnings Ratio (PER) = Price / Co Earnings

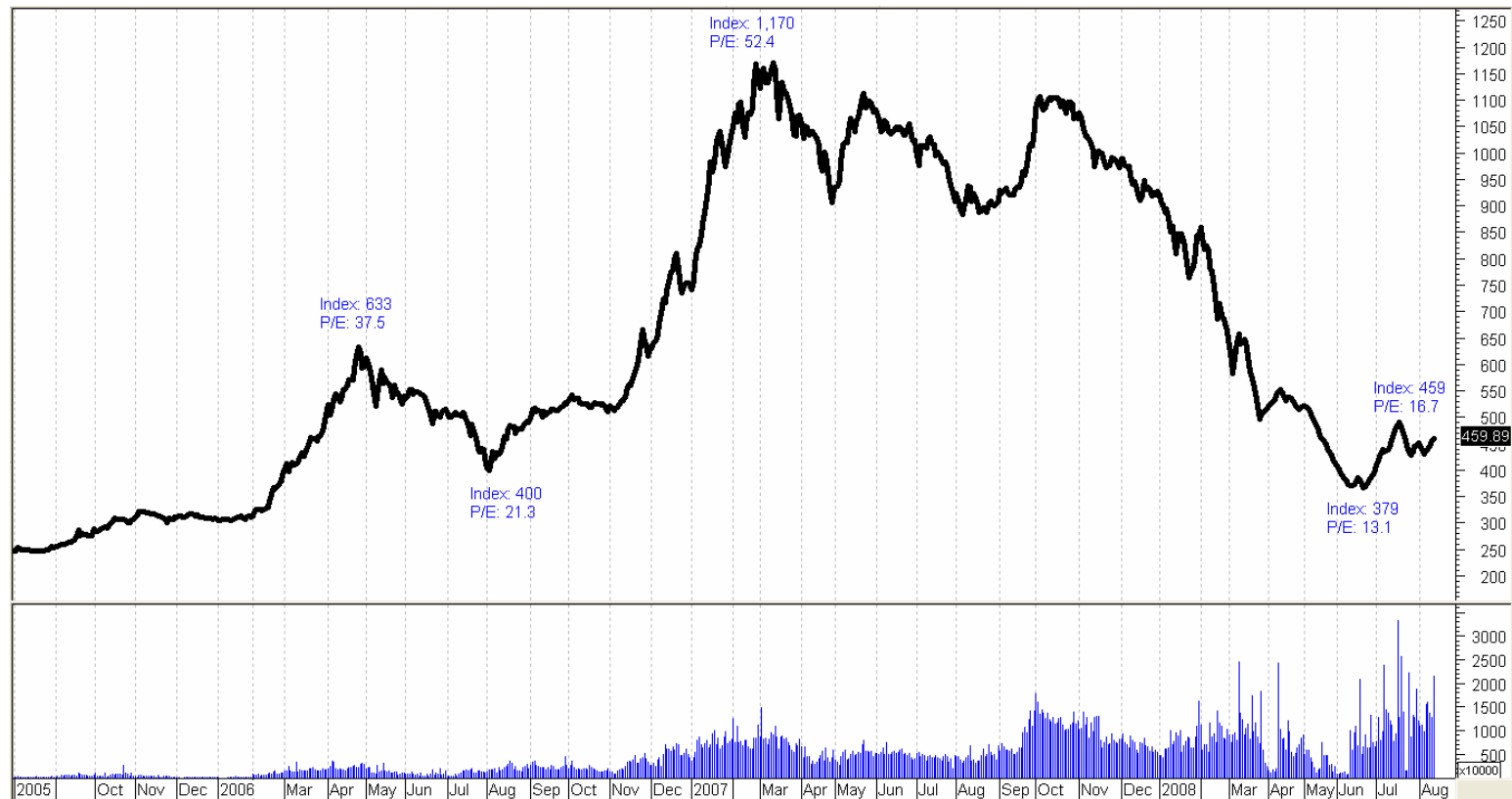
Earnings yield = Earnings / Price = 1 / PER

Example:

If PER = 10x, earnings yield = $1 / 10 = 10\%$

If PER = 20x, earnings yield = $1 / 20 = 5\%$

VN Index – Historical Perspective



Relative Valuation - Historical Perspective

Date	VN Index	Historical P/E	Earnings Yield	12-Month VIBOR	Yield Difference
Jan 2005	236	17.7	5.6%	7.7%	-2.1%
Jan 2006	308	19.6	5.1%	9.1%	-4.0%
Apr 2006	633	37.5	2.7%	9.2%	-6.5%
Aug 2006	400	21.3	4.7%	9.2%	-4.5%
Mar 2007	1,170	52.4	1.9%	8.7%	-6.8%
Jun 2008	379	13.1	7.6%	10.1%	-2.5%
12/08/2008	459	16.7	6.0%	11.0%	-5.0%

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Where is the market heading?

Short-term correction likely due to relative high market valuation

Followed by consolidation in next few months as concerns shift from inflation to economic slowdown and its impact on corporate earnings

Falling inflation in next 6-12 months will give room for government to cut interest rates aggressively to stimulate economy and set the platform for more sustainable **market rally next year**

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Lesson from recent corporate results

Companies with good results:

1. Focus on core business
2. Strong underlying business
3. Selling price not regulated
4. Stable operating cost
5. Good operating cash flow

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Lesson from recent corporate results

Companies with poor results:

1. Diversified into non-related businesses
2. Poor underlying business with rising cost and capping of selling price
3. Negative operating cash flow
4. Highly dependent on new capital injection and debts to finance business expansion

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How to spot investment opportunity?

Look for companies with following characteristics:

- Benefit from long term economic trend
- Competitive edge
- Financial and management strength to ride through economic turbulence
- Good operating cash flow



How to spot investment opportunity?

1. P/E
2. P/B
3. ROE
4. Financial strength

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P/E or PER = Price earnings ratio

P/E = Share Price / Earnings per share

P/E = No of years the company needs to earn
to match the share price



Factors affecting P/E

1. Earnings quality
2. Business prospects
3. Earnings growth
4. Financial leverage
5. Asset backing
6. Company size
7. Management quality
8. Corporate governance
9. Other industry specific factors



P/B or Price to book value

$P/B = \text{Share price} / \text{Book value per share}$

Affected by:

- Earnings potential
- Next best use
- Size of company
- Financial leverage
- Industry cycle

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Return On Equity

$$\text{ROE} = \text{Net Profit} / \text{Average Equity}$$

Measures return on average shareholders' funds

The higher the ratio the better

Example:

ROE of 10% means company earns VND10 for every VND100 of shareholders' funds

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Financial strength

Net gearing or Net debt to equity
= (Total debt – cash) / Equity

Measures debt position relative to equity

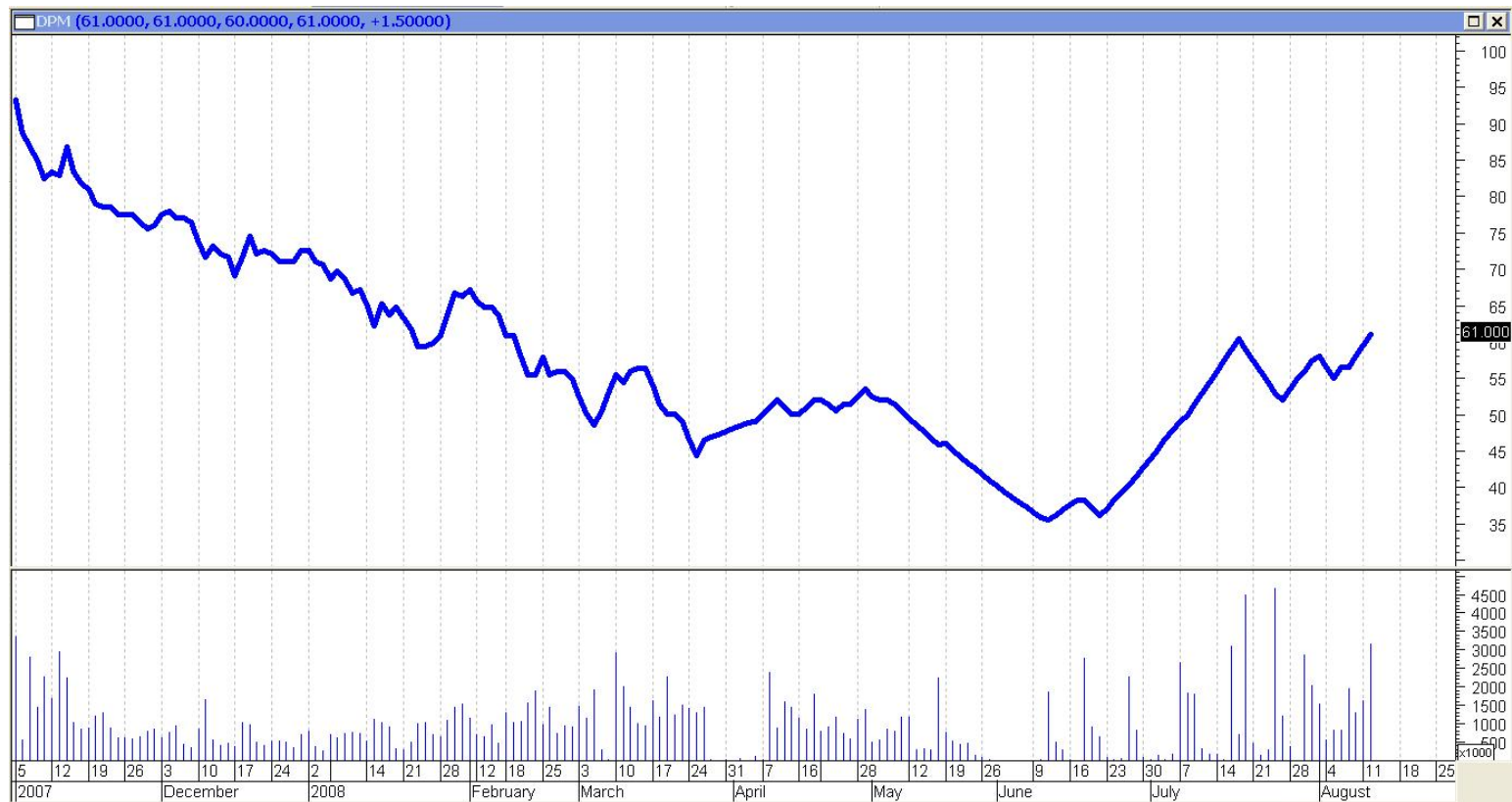
The higher the ratio the more risky

Example:

Net gearing 0.50 means the company borrows
VND50 for every VND100 of shareholders' funds

Phu My Fertiliser – VND 61,000

Beneficiary of rising food demand and shrinking agricultural land





Phu My Fertiliser

Largest fertilizer producer in Vietnam

- 50% mkt share in central highland to Mekong Delta
- 87% of revenue from urea
- Annual production capacity 740,000 tons
- Current domestic production of 900,000 tons can only meet 47% of demand

Subsidised production cost

- main raw material is natural gas
- long term supply contract at US\$2.2/MMBtu to Dec 2009 and US\$3.82 for 2 years to 2011, US\$3.97 for year 2012 and 2% increase annually thereafter



Phu My Fertiliser

Earnings outlook

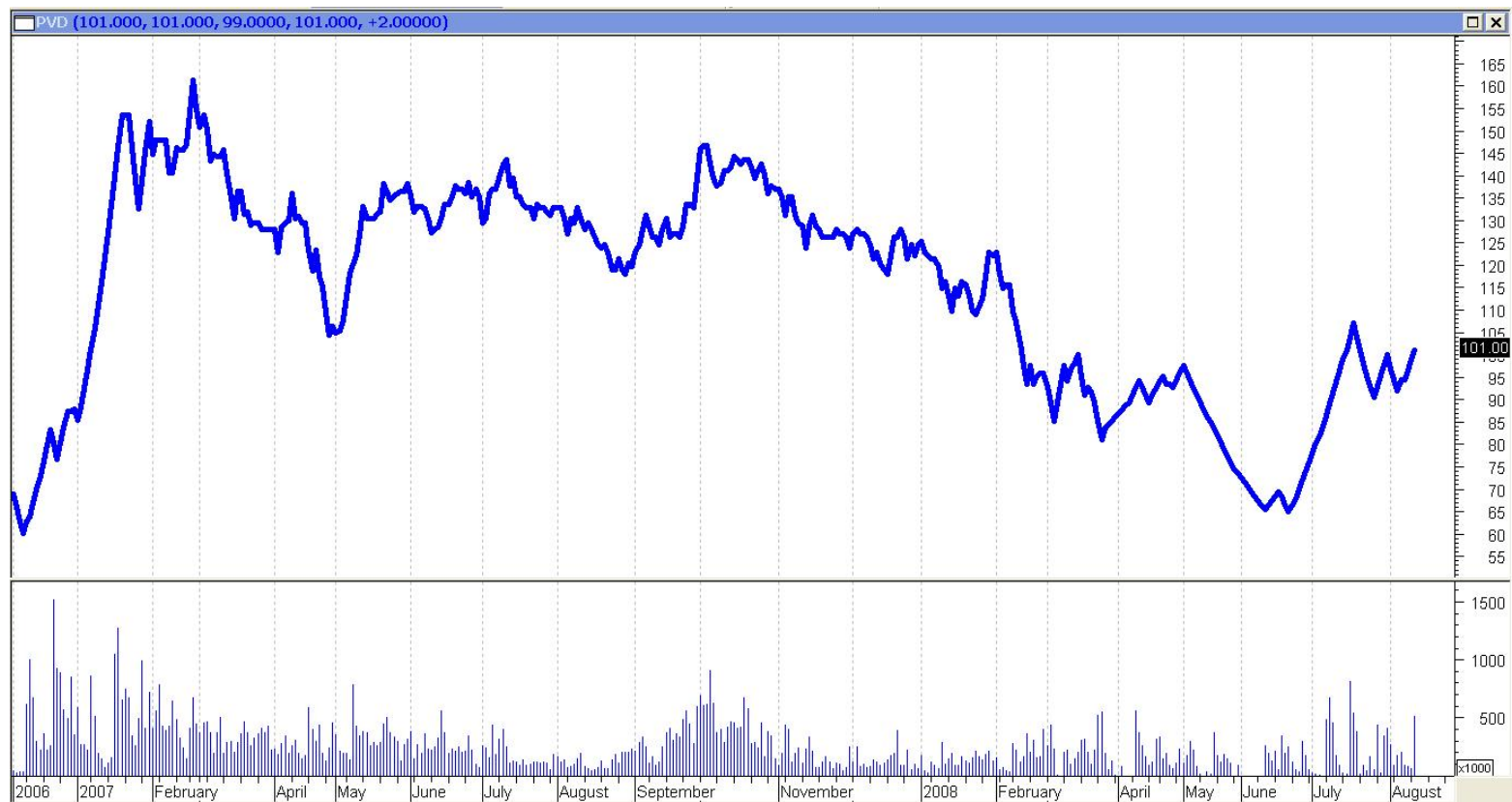
- Net profit in 2007 rose 13.7% to VND 1,320.8bn on 23.9% jump in sales to VND3,779bn.
- Average selling price rose more than 50% this year
- With stable production cost, net profit could grow 80% this year

Valuation

- Prospective P/E (2008): 9.7x
- P/B: 4.6x
- Net cash holdings of VND210bn @ June 2008
- ROE: 29.3%

PetroVietnam Drilling – VND 101,000

Beneficiary of buoyant offshore drilling activities in Vietnam and the region





PetroVietnam Drilling

Buoyant Oil & Gas Sector

- 40 – 60 offshore wells to be drilled in Vietnam annually till the year 2020
- Shortage of jack-up rigs globally

Growing contribution from rig chartering

- 50% of revenue and 75% of net profit in 1H08
- Current: One jack-up rig and one land rig
- 4Q09: 2 more jack-up rigs

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PetroVietnam Drilling

Leading oilfield service provider

Earnings outlook

- Net profit in 2007 +376% to VND 572bn
- Net profit in 2008 expected to grow more than 50% to VND 888bn

Valuation

- Prospective P/E (2008): 14.8x
- P/B: 6.3x
- Net gearing of 72.3%@ June 2008
- ROE: 43.8%

TAC – VND 56,000

Beneficiary of rising edible oil demand





TAC

Leading edible oil producer

- 30% market share
- 60% of output from palm oil and 20% from soybean

Rising edible oil consumption per capita

- 1996: 0.7 kg
- 2003: 5.0 kg
- 2008: 7.6 kg
- WHO target: **13.5 kg**

TAC

- Soybean and Crude palm oil prices



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TAC

Earnings outlook

- Expected earning growth of 16.7% in 2008 partly dampened by forex loss and change of tax rule
- Future earnings potential from 150% increase in production capacity

Valuation

- Prospective P/E (2008): 7.2x
- P/B: 3.0x
- Net cash holdings of VND200bn @ June 2008
- ROE: 41.3%



Summary

Current economic conditions and relative market valuation do not support sustainable market recovery

To expect **short-term price correction followed by consolidation** in next few months as concerns shift from inflation to economic slowdown and its impact on corporate earnings

Start to reduce securities holdings and to identify good stocks for **accumulation on price weakness**

Falling inflation in next 6-12 months will give room for government to cut interest rates aggressively to stimulate economy and set the platform for more sustainable **market rally next year**



Thank you!