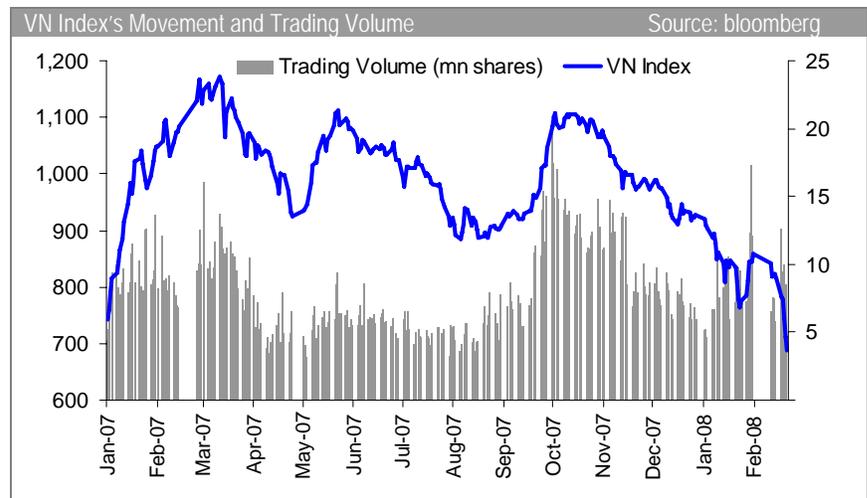


Time for bargain hunting or.....wait for further discount?

Investment Strategy

Bearish sentiments continue.....Our recent discussions with fund managers and retailers have revealed their bearish sentiments on the market outlook. The VN Index had corrected to 687.1 points, a level that has not been seen since 7th of December 2006. With the VN Index declining 25.9% on a year to date basis, we can quite understand the pessimism surrounding the market.



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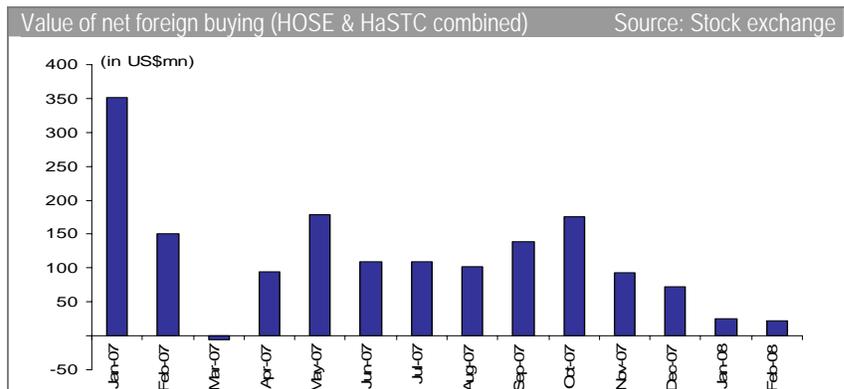
What is haunting the market? Other than the increased external uncertainties about US recession and high oil prices which continue to reduce investor's risk appetite, several domestic issues are worrying investors in Vietnam's equity market:

- **Expectations quashed.** Many domestic investors were optimistic that the market would stage a meaningful rally post Tet with potential measures introduced by the Government to stimulate the equity market and/or cool down the real estate market. Unfortunately these expectations have not turned into reality.
- **Upcycles in real estate and gold markets.** Continued switching of funds from the equity market to the booming property and gold markets.
- **Continued tightening of monetary policy.** The State Bank of Vietnam (SBV) has introduced a series of monetary tightening policies to counter escalating inflation. After doubling the banks and credit organizations' required reserve ratios to 11% and raising annual base interest rate by 50 basis points to 8.75% a year, the central bank has recently announced that it will issue treasury bills to 41 banks to withdraw around VND20.3tn (US\$1.3bn) from the financial system. The continued monetary tightening has raised concerns that these measures could slow down economic growth and drain significant liquidity from the equity market.

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But foreigners are net buyers so far..... Despite the prolonged market consolidation, foreign investors have been faithful supporters of the market. They have been the net purchasers of the market since April 2007 although the net buying volume has reduced recently due to the ongoing doldrums in both the external and domestic equity markets. This shows that they continue to view the domestic equity market favorably. The continued foreign buying also reveals that selling by domestic investors is the main cause of the market downturn.



Now the million dollar question. The million dollar question that we are frequently encountering is whether the market has reached its bottom, therefore provide a buying opportunity; or whether the Vietnamese equity market will continue to perform poorly.

Looking into the crystal ball.... At the present level, we think the market has limited downside risk. Although we believe that the underlying fundamentals of the market remain strong and the "Vietnam Story" remains very much intact, we do acknowledge that weak domestic investor sentiment and continued reallocation of funds to the real estate and gold markets may hinder the recovery of equity market in the near term since domestic buying remains the key factor that drives the market direction. We believe the only near term catalyst that could boost the market would be potential measures implemented by the Government to stimulate the equity market and/or cool down the real estate market.

Opportunity to buy. For investors with a long term investment horizon, we believe that the current market weakness warrants some bargain hunting. Some of the large caps such as PetroVietnam Drilling and Well Services (PVD), Petrovietnam Fertilizer & Chemical Joint Stock Company (DPM) and Vietnam Dairy Product Company (VNM) with strong fundamentals, dominant positions in their respective sectors and sound business models may be the stocks to watch, in our opinion. Should the market rally we would expect good upside performance in all of these companies.

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