2009

Sacombank-SBS SECURITIES COMPANY

VIET NAM
Early recovery

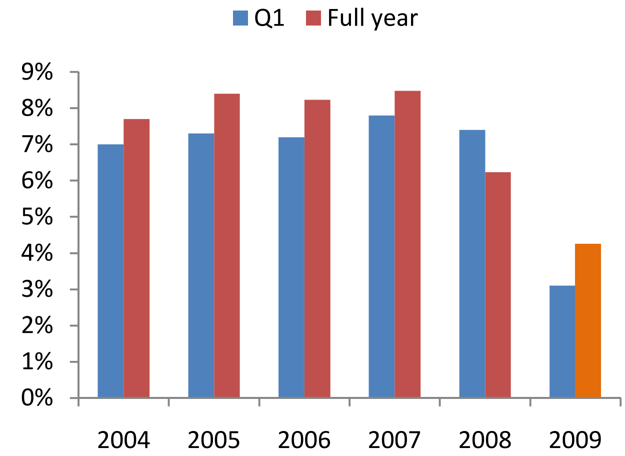
Most forecasts on Vietnam's GDP in 2009 point to a growth rate of 4% to 5%. The Q1 outcome of 3.1% well underperformed the majority of forecasts and is far lower than the historical data. This number is highly acceptable while benchmarking against many economies contracting in Q1 and expectedly the whole year but it becomes a concern once comparing with several countries in the region. All sharing many similarities and being hit by the crisis but China attempted to achieve a 6.5% growth rate and Indonesia at 4.6%. It is not certain whether they will keep outperforming Vietnam until the end of the year, but the certainty is that the current crisis will still extend its impacts to all economies in the world.

Despite the current challenges faced by the economy, the stock market has shown an excellent performance, indices have rallied strongly and broken many resistance levels, liquidity keeps improving. So far we have not any satisfactory explanation for the market recovery from a fundamental point of view. In such a case, expectation could be the reason as stock market has been seen as a leading indicator for the economy. For now, at least we can expect a more stable market ahead and a real recovery that comes after.

SBS
Sacombank Securities Company
3/31/2009

Q1 GDP growth

GDP Q1 and full year



Source: GSO, SBS

Vietnam's Q1 GDP growth was estimated to be 3.1%, in which industry and construction grew at 1.5%, agriculture, forestry and fishery at 0.4% and service at 5.4%.

Statistics to date show GDP in Q1 is generally lower than others. In 2007, it was 7.8% for the first quarter but 8.48% for the year, similarly in 2006, 7.2% and 8.23% were growth rates for Q1 and full year respectively. With those numbers being quoted, it is noteworthy however that it is not the case in bumpy years. 2008 was one of those when GDP growth topped at 7.4% in the first quarter then deteriorated in the followings, which then drags down the whole year growth rate to merely 6.23%. The issue of concern for 2009 is whether growth will repeat its 2008 pattern or reverse to that of previous years. This depends much on whether Vietnam could soon overcome the impacts of the crisis and starts recovering from late 2009.

From inside the country, the fiscal and monetary policies applied from earlier 2009 have yet to show signs of desired outcomes. The interest preferential lending program was in the core with the stimulus value initially set at USD1 billion. The total fund available for lending thus amount to USD 25 billion, accounting for 63% of the economy's total investment in 2008. The fund of this size could greatly assist those businesses in thirst of capital, however its real impact so far has not been measurable except the fact that much of the disbursed fund being used to repay those at record high interest last year. The recent loosened monetary policies have made it much easier for businesses and individuals alike to approach banks lending, however, its targeted impacts, just like other policies, have been largely limited since opportunities for lucrative investments are scarce, the real estate market has yet regained its role as an attraction of capital, the manufacturing and construction sectors of the economy are experiencing difficulties and the number of people losing jobs still on the rise, the 0.54% growth rate after two months means investment demand remains weak. Some other incentives such as reducing corporate income tax, delaying the collection of individual income tax have not been strong enough to boost the purchasing power of the economy.

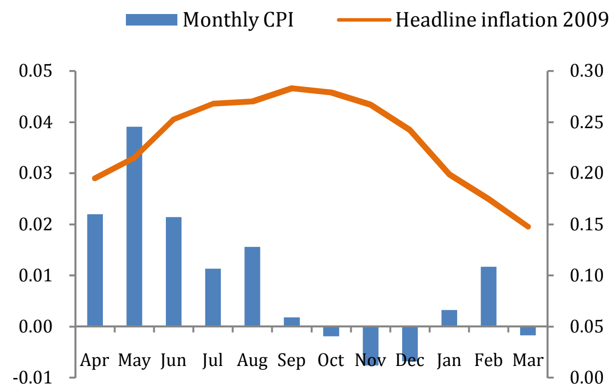
From outside the country, the demand for Vietnam's goods is more likely to fade than to grow in 2009. The world's largest economies like USA, EU and Japan are expected to be still struggling, the huge funds committed worldwide are currently targeting only to stop the situation from getting worse or prevent corporations from bankruptcy. Recent forecasts on the world economic prospect are at best based on a cautious scenario for 2009.

Among the major sectors, service is perhaps the most optimistic with 5.4% growth in Q1 with an ability to maintain or in a better case, improvement. Industrial manufacturing and agriculture, forestry and fishery will still endure many difficulties therefore it is hard to greatly outperform Q1 results.

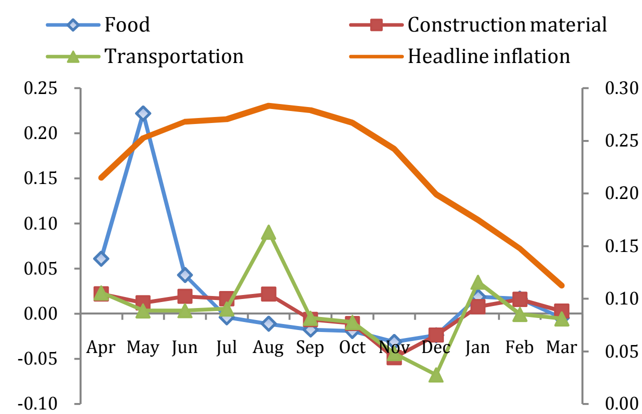
We presume the impact delay from the fiscal and monetary policies is at least about 6 months, thus the situation is expected to improve from the third quarter of 2009. The GDP growth in Q2 will not be significantly different from Q1 but starts to accelerate in Q3 and Vietnam could end the year with a growth rate from 4% to 4.25%.

CPI diving

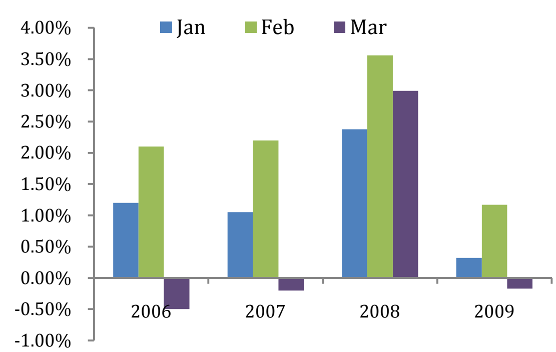
CPI and headline inflation



CPI of Major items



CPI as first three months



Source: GSO, SBS

After rising for two consecutive months, March CPI starts to contract slightly by 0.17% compared to February. Ending 1Q2009, CPI has increased by 1.32% and 11.25% vis-à-vis December 2008 and same 1Q2008 respectively. The upsurge of this level has relieved the anxiety of inflation returning following the State bank's loosened money and commercial banks' lending expansion.

Making much in the fall of CPI was the foodstuff group which was down by 1.55%, then comes food services (-0.46%) and means of transport (-0.55%) which follows the cut of retail diesel price by 500 dong/liter. Food saw the highest rise of 1.27%.

The drop of March CPI was largely unexpected by many since prices have shown to be very sensitive to electricity price, meanwhile a rise of 9% is quite considerable. It is not unreasonable to say the March CPI may have plunged even more than 0.17% without electricity price being raised.

Back in 2008 there were many commodities on the schedule for price increase but had to be postponed due to the escalating inflation pressure. The impacts recorded so far have all pointed to a positive indicator for government agencies in deciding to raise the price of other goods, namely coal, water. These are the products of which all the supply is by the government and thus some industries could purchase at a discount to market price. We forecast after electricity, coal will be the next on the agenda as it is an important input for thermal power.

Contrary to the rising "trend" as a result of government decisions, some other goods tend to drop in price, they are those directly affected by world price, such as iron, steel, cement. This fall on one side will positively help the construction boosting policy in 2009 but on the other will put further pressure on CPI. As prices continue to plummet while purchasing power remains shaky, there will appear a risk of stagnation which will be a hindrance to Vietnam's growth target for 2009.

We forecast CPI for Q2 will remain low at around -0.1% to 0.1%.

Foreign trade – risk of export decrease further

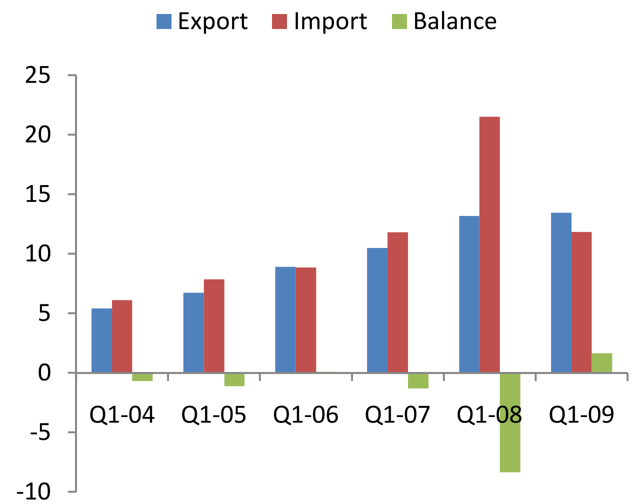
Extending the trend in the first 2 months, Vietnam's trade surplus continue in March with the accumulated value totaling USD 1.63 billion. Again, the sustainability of this surplus status is considered unusual since Vietnam has long been known as a net importer with the value of consumers goods, materials, equipment for processing, manufacturing always exceeding export value.

The total Q1 export value was estimated to be USD 13.45 billion, 2.4% higher than the same period last year. However, with USD 2.29 billion being recorded, gold has accounted for a considerable portion in the export structure and brought in all the surplus. This amount of gold was equivalent to 65% of the total gold imported in 2007 and 2008. Extracting this item, the total export value became only USD 11.2 billion, 15% decline from the same period last year, the average monthly export was thus merely USD 3.73 billion.

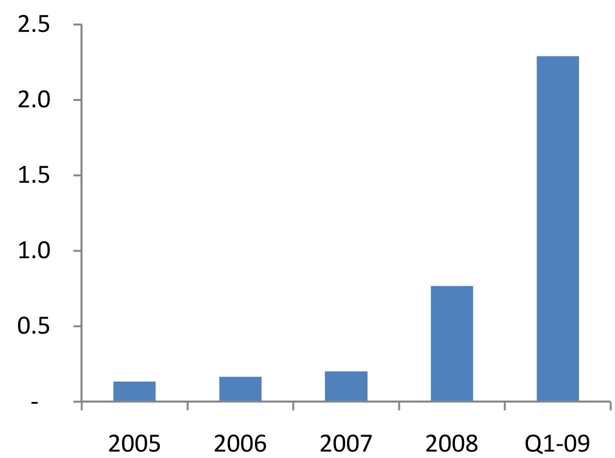
Most of the major exports saw fall in export value: garment down by 0.1%; footwear down 10.8%; aquatic products -10.4%; crude oil saw a rise of 22.4% in volume but value plunged by 45,5%. Rice was the only outperforming export item with a rise of 71,3% in quantity and 76,2% in value.

Can gold sustain its net export position and thus trade balance remain in surplus in the second quarter. We think this is very difficult as a significant amount of gold has been already exported, furthermore, gold has always been a favorable means of preserving wealth in Vietnam where bank accounts are used by only a modest number of people. The recent surge in gold export was attributed mostly to the large amount imported at low price in 2008. If this is the case, the quantity of gold now available for export has greatly depleted.

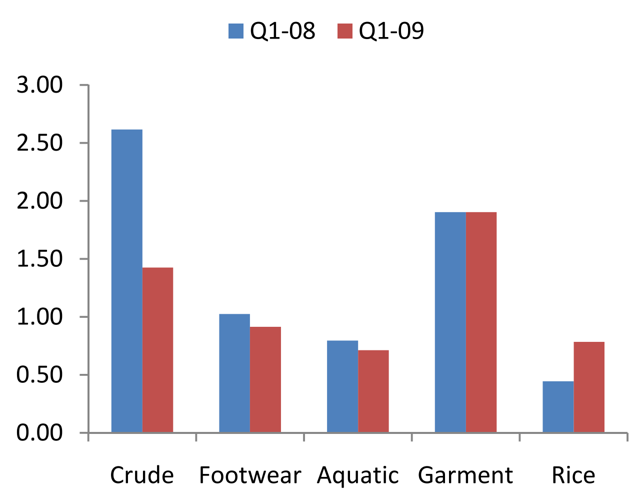
Q1 balance of trade



Export of gold and precious stones



Volume of some major exports



Source: SBS, GSO

As for major exports, the risk of further downsize is imminent when some exporters are probably still implementing the ongoing contracts from previous years, especially for those suffering from severe competition from regional countries. On the upside, the recent signs of rising price of rubber and crude together with the acceleration of rise export will make up for the decrease. For the next 3 months in the second quarter, we forecast the export of gold will greatly dwindle and the average monthly export will be close to USD 4 billion.

As the processing based exports decrease, the import of materials will fall accordingly, the trim down of investment from both foreign and local investors will cut demand for import of equipment and machineries, this together with the fall in price of commodities have led import to dwindle. The value of import in the first 3 months was USD 11.8 billion, 45% lower than the same period 2008. Import is expected to stay fairly stable for the rest of 2009 except consumers' goods since they have become relatively more expensive for Vietnamese with the depreciation of VND by 2% following the recent decision by SBV. The value of import in Q2 will not be much different from Q1, however the surplus status will no longer be the case after quarter 2.

Real estate – ready for a new start

After staying quiet for a long time as a result of the crisis and tightened monetary policies, the real estate market has attempted to start again with many positive signs.

From early 2009, a number of developers warmed up the market by applying aggressive discount policies, some cut price by 40%. This policy has really kicked the ball rolling and well tested market reaction, which turned out to be very resilient and elastic to price, hundreds of discount high end apartments were sold out within a day.

Real estate price

Projects	**Jul-08**	**Feb-09**
The manor	2400-2600	2300-2600
Saigon Pearl	2400-2800	1850-2700
Sunrise city	2600-2800	1800-2500
Central garden	1500-1800	1600-1800
Cartavil Hoan Cau	2700-3000	2200-2700
Phu Hoang Anh	1800-2000	1250
Sunview	650-1000	550-764

Source: HSB

For a long time before that, the market for high class apartments, those which are priced at over 1,000 USD/m2, became virtually frozen, market liquidity greatly dwindled. The transactions recorded recently indicated that investors' potential demand and affordability are very sound if real estate is reasonably priced. In addition to testing market reaction, the initial discount policies will certainly put pressure on other companies in the same market segment. According to the information we have collected so far, many have joined the competition by applying similar favorable discount policies. A new game has started, the game of cutting price.

While discount in price was the reason triggering liquidity for high end apartments, the market for lower end ones has become very busy recently due to its price reasonability to the majority of people with real demand. With its price staying fairly resilient during the quiet period, the accessibility to mortgages now becomes much easier, with greater ability for speculators to participate and manipulate, this market segment is potentially very big, especially for those at convenient locations with complete infrastructure.

Currently a number of factors are supporting the real estate market: banks are offering easy mortgages for investors on the demand side and loans to developers on the supply side alike with very attractive interest rates; price of construction materials and project land has strongly decreased. Besides the stock market recovering is also a positive news to the real estate market.

When the real estate market become active again as before? That day is perhaps not too far away as market has been considered to have bottomed out. Price, liquidity and mortgage conditions all point towards a uprising market. For 2009 however, it is reasonable to anticipate only further improvement of liquidity, just like a start.

Money market

Many changes have been observed in the domestic money market from earlier this year.

Opposite movement of VND and USD deposit rates: After base rate was cut down to 7%, commercial banks have repeatedly slashed their VND deposit rate, some down to only 1/3 of the recorded level last year. However this did not last very long as the deposit base dwindled while lending on the rise, banks thus had to increase deposit rates again and the trend persists until late March.

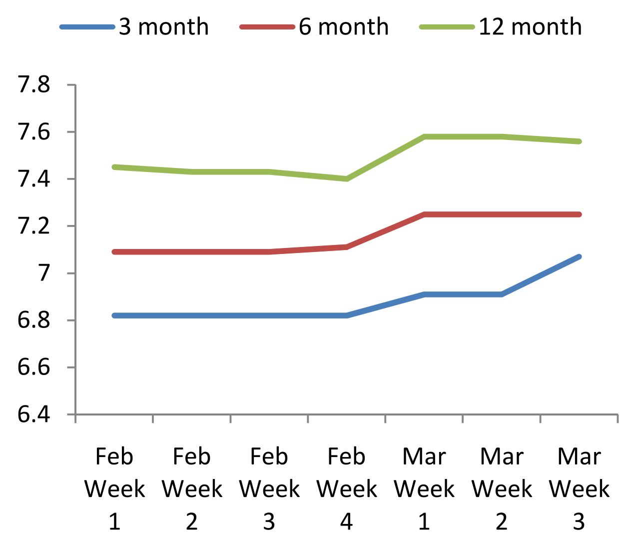
The deposit rate for USD however only trails one downward trend. The USD deposit base rose by 1.13% after 2 months despite interest rate kept being cut from 0.1% to 0.2% each month.

Plentiful foreign currency position: The above trend was attributed to the rising holding of USD by investors and commercial banks. In the USD 300 million issuance, the bidding volume amount to 3-7 times the offered value.

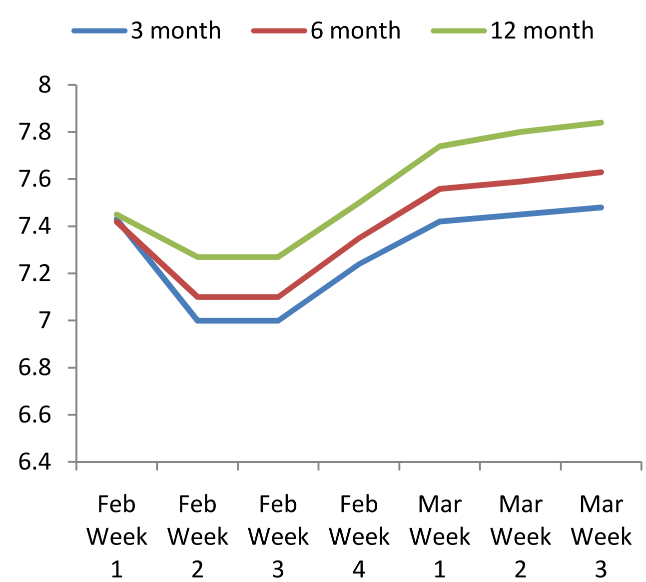
The preference in holding USD initiated earlier this year when all were forecasting a soon to be depreciated VND for export boosting. They turned out to have guessed correctly when SBV expanded the trading band of VND/USD rate from +/-3% to +/-5% from March 24th. Following the decision, the quoted rates have all surged but not to its ceiling level, the bid offer spread stay very large, some up to VND 100, meaning no scarcity of foreign currencies at banks.

After exchange rate has been adjusted, a number of USD holders will undoubtedly convert their holdings into VND for profit realization. Nonetheless, that does not mean the preference in holding USD will weaken since its holding period yield was at 11% for the last 12

VND deposit rate by state commercial banks



VND deposit rate by JS banks

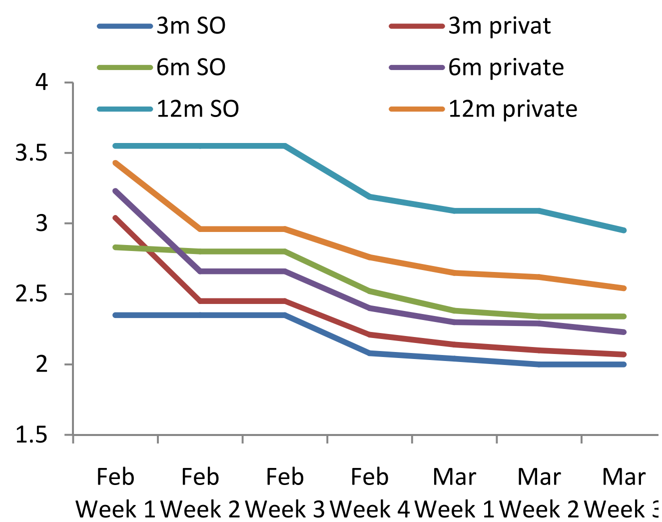


Source: SBV

months and still expectedly rise higher. As for the rate, we think any further adjustment this year will be done through further expansion of trading bands rather than directly depreciating the local currency by rising the SBV quoted rate. This will enable VND to move in both direction.

So far banks have disbursed about 180,000 billion VND of interest preferential loans, accounting for over ¼ of the total value of the program, credit growth after 2 months remain modest (0.54%), part of the money might have been used to pay up existing loans. After SBV voicing to forbid the use of cheap money to pay back expensive loans and/or many have already completed it, lending is expected to rise at higher rate than Q1.

USD deposit rates



The Stock market

Formation of a bottom. Ending the 31-Mar trading session VNIndex closed at 280.67, increasing by 34.73 points or 14.43% MoM. Meanwhile HaSTC reached 98.37 points, up by 17.16% MoM in comparison with Feb-2009 ending session's level of 83.96 points. It is noteworthy that along with the market's rally, daily volume and value on the two bourses were drastically improved.

HOSE in March

The return of cash flows. After the formation of VNIndex and HaSTC troughs, the market's liquidity has been considerably strengthened with HOSE's daily average volume climbing to 17.59 million units, equivalent to VND 361 billion in value and HaSTC's daily volume touching 10.03 million shares or VND 189.19 billion in value. In our opinion, this has been proven a good indicator for the stock market in coming time since during March, either volume or value on both exchanges were kept steady at relatively high levels even in correction sessions.

Hastc in March

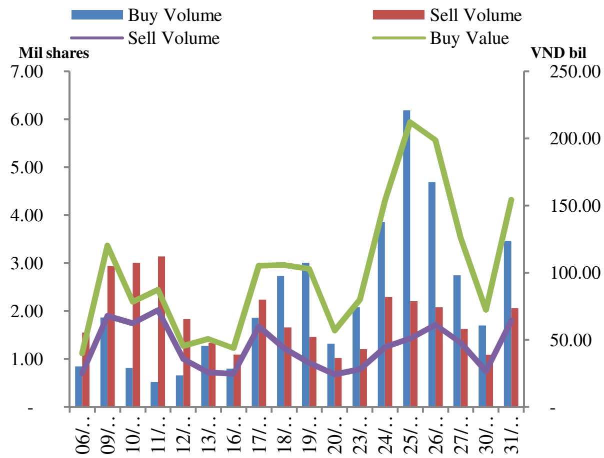
Positive trading activities by foreign investors: compared to the first two months foreign investors played as the net buyer on HOSE whereas they became the net seller on HaSTC. In our view, there would be some reasons behind the improvement in trading activities by foreigners: 1. The SBV's FX band widening has facilitate some new foreign entrants or some who still held USD to convert into VND and pour money into the stock market; another implication of the FX band widening is that while injecting more cash into the market, it partly helps prevent foreigners' money withdrawal out of the market. 2. We do not exclude the possibility that some foreign funds have enhanced disbursing in March to push up their NAV.

MARKET COMMENTARY

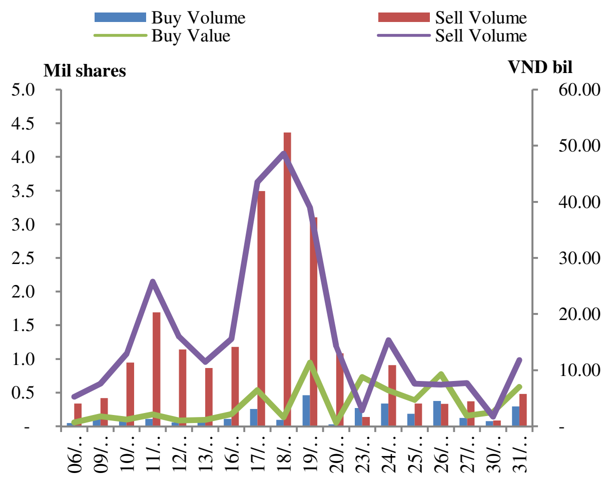
Buying for hefty cash dividend. Unlike previous years when listed companies usually declared high stock dividend payment at their AGM. However as the market kept plunging with HOSE deeply dropping under 300 level and HaSTC sliding well below its 100 benchmark, cash dividend becomes far more attractive to investors. In addition, current benchmark rate of 7% makes investments in bank deposit and fixed income less alluring, too; if an investor buys a stock priced between 1-2 times par of VND 10,000 with promised cash dividend around 10%, payment date from 2 weeks to 1 month after, his HPY on the stock would be very appealing. We think that declarations of hefty cash dividend payment by listed companies created an important impetus to the rally in March.

Positive correlation of Vietnam's stock market with major international markets. From the beginning of March, the U.S stock market has got flows of good news on higher than expected orders of durable goods and housing licenses; better bottom-line of banks in Jan and Feb; that the Obama administration strongly draws its determination to quell economic crisis and restore the economy has brought in the expectation that the U.S economy might recover sooner than forecasted. In turn, the rally of the U.S market has lifted confidence in other markets including Vietnam that the sooner the steam-engine economy recovers, the quicker the

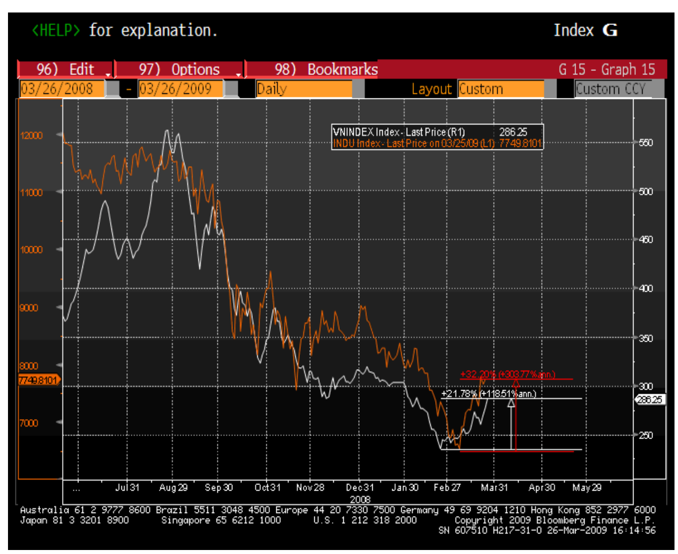
Foreign investor's trading on HOSE



Foreign investors' trading on HaSTC



DJIA and VNIndex



Source: SBS, HOSE, Hastc, Bloomberg

global economy will turn to its orderly orbit. Rather, as in our Feb report "Yet to bottom", Vietnam's stock market increasingly proves its strong correlation with major stock markets in the world and we believe that in the coming time Vietnam's stock market should keep closely tracking movements on the U.S, European and Japan markets.

Disbursement pressure after an oversold period. Another rationale in our opinion supporting the market's rally is that in the first two months some financial institutions commented that VNIndex might dive down to 220 level before a recovery, that made some investors sell their holdings and hoped to enter again at a lower level in Feb. However, when VNIndex touched 236 points, many with cash available opted to buy before VNIndex hit 220 level. Rather, in the long-run view there is no significant difference between in price when buying in VNIndex' 236-250 range and purchasing at VNIndex's 220 level. We think this along with the two above mentioned points has been the explanation for Vietnam's rally in March.

Impacts from domestic macroeconomic indicators. From earlier this year, there have been many fiscal and monetary policies being introduced to boost up the economy, many businesses have been able to access funds with favorable interest, the reduction of corporate income tax and several other taxes will greatly assist companies in difficult times, the exchange rate has become more flexible to boost export, all of these are expected to soon bring Vietnam's economy back on track. We think this will attract further cash flows into a bear market on the rise as many investors formerly holding USD have transferred into VND, part of which is oriented into the market. In addition, the loosened monetary policy recently has made it easier for investors to access low interest funds, we have seen the shares repurchase, collateral lending and other leverage products on its way to flourish again, as such, market liquidity is expected to further improve.

International markets. As at the end of March, DJIA has surged from 6,763 to 7,608, equal to a rise of 12.5%, Europe's DJSTOXX 600 also gained 6.6% from 1,943 to 2,071 in the month, with the rally still in place, US and Europe markets have been viewed by many to have bottomed. Also in March, many new stimulus packages were introduced by governments, many short-term signs point to economies stabilizing again and major economic indicators turned out better than forecast. The governments' consensus efforts and shared commitments are expected to recover trust among investors, the seemingly instant reactions by investors every time there is positive news coming out in a market have sustained longer than initially thought. Empirical evidences have shown markets usually recover from 6 to 8 months ahead of economies, in this case, it is good for economies as we can expect a recovery not so far away but at the same time investors worldwide should expect to receive further unwelcoming news in the time to come. For now stability is what could be expected.

FORECAST

Implication of downgrade of growth and dividend targets by listed companies. If in 2008, listed companies often set impressive and sometimes ambitious targets for their business plans based on the spectacular growth rates in previous years, especially FY 2007. Nevertheless, challenges from international conditions and the domestic macro economy caused headwinds to companies' business activities, many of listed companies unable to meet their yearly guidance. We estimate that if based on our GDP growth rate projection for 2009 at 4.0-4.25%, domestic demand for goods would remarkably decline; plus the declining global economy, Vietnamese companies' expansion to foreign markets will be faced by various obstacles this year. As such, that companies have to downgrade their 2009 business growth and dividend payment targets is inevitable. At the current price level for the whole market and downgraded outlook for market's earnings , we sense that it shall be more expensive for a greater number of investors.

Coming market trend. After a rallying month, HOSE is presently trading at 2008 P/E of 8.9x and 2009 forward P/E of 9.8x while HaSTC is trading at 2008 P/E of 7.7x and 2009 P/E forward of 8.6x based on our assumption that normalized earnings growth rate of companies listed on the two bourses would decline by 10% yoy. In the absence of supporting news from the domestic economy, the movements on the world markets, the liquidity on the local market and corporate releases will guide the market. As with listing companies, the much expected news in the time to come will be the profit distribution schemes, and 2009 bottom line target and implementation measures, with business results investors have to wait in 2-3 months for Q2 outcome to be released. We anticipate 3 scenarios for the market: **the good scenario is** when trading volume and value stay at high levels like in March and even keep rising, the market could surge even stronger; **the base scenario is** when big corporations around the world surprise markets with negative earnings for Q1, unemployment rate continues to hike and that concern over the success of the stimulus packages mounts again, all those would stop the momentum of international markets and thus Vietnam, if liquidity is sustained, the market will move sideways or slightly increase and wait for further guiding indicators; **the adverse scenario** is when both international markets plunge and liquidity on the local market dwindles, then investment plans should be carefully reviewed.

Major macroeconomic indicators for Q1 2009

GDP	+3,1
Industrial production	+2,1
Retails and consumers services	+21,9
Export	+2,4
Import	-45,0
International visitors	-16,1
Implemented investment using state fund (v.s 2009 plan)	17,8
CPI	+14,47

Nguồn: GSO

SACOMBANK SECURITIES COMPANY

Ho Chi Minh Office

278 Nam Ky Khoi Nghia, Dist 3, HCMC, Vietnam

Tel : 84-8-62686868 ; Fax : 84-8-62555939

Ha Noi Office

6, 7 Fl, 88 Ly Thuong Kiet, Ha Noi, Viet Nam

Tel : 84-4-39428076 ; Fax : 84-4-39410233

Customer Services

Tel: 84-8-914 7417, 84-8-914 7418

Email: support@sbsc.com.vn

Web: www.sbsc.com.vn

Contact

Le Ba Hoang Quang - Head of Research - Hanoi

quang.lbh@sbsc.com.vn

Tran Vu Ngoc - Analyst - ngoc.tv@sbsc.com.vn

Nguyen Quy Thinh - Analyst - thinh.nq@sbsc.com.vn