KIM ENG

MARKET STRATEGY REPORT

'The Formation of A Super Bull Cycle'

Mr.Bernanke: **"Financial Crisis of the Centuries"**

Kim Eng Vietnam Research: **"Investment Opportunities of the Centuries"**

SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

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VIETNAM

Strategy Report

VN Index

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EXECUTIVE SUMMARY

Current market consolidation is long overdue….
As forewarned in our strategy report published on the 19th of May titled ***'Bull Critics: Down but Not Out',*** we view the current consolidation phase to be long overdue and healthy in nature given that the market is running far ahead of its fundamentals. This is because we believe that the massive run-up in global equity is an attempt to price in the 'blue sky', rather than some 'green shoots'; thus, disappointments are likely to follow suit.

….but not expected to be a bear market rally!
Our primary investment thesis is that we believe that the recent run-up in the global equity market, although it has overshot the fundamentals, is not a bear market rally. Although the path to a sustainable global recovery would still be fraught with plenty of challenges and hiccups going forward, we believe that the economic slowdown is nearing its bottom.

A more sustainable rally to come
We believe that there will be a more sustainable rally in the latter part of this year with more signs of green shoots coming along and the loosening of the credit market. We remain optimistic that emerging markets will continue to outperform developed markets within the one-to-three-year investment horizon supported by resilient economic growth, currency stability, healthy financial systems, the emergence of carry trade and other positive catalysts.

Vietnam could be one of the top gainers
We maintain our investment thesis that Vietnam could emerge as one of the top gainers supported by strong economic growth, continued liberalisation and equitisation of state- owned enterprises, as well as abundant domestic liquidity, coupled with earnings stabilisation.

Commendable economic growth and year-end target of 550 points!!!
We expect Vietnam to sustain commendable GDP growth rates of 5.2% and 6.5% for 2009 and 2010, respectively. Our year-end target for the VN-Index is 550 points, pegged at an expected P/B ratio of 2.7x, which comes at the lower end of its historical valuation metrics. We believe that this target is reasonable compared to that of the region. Our year-end target has also implied an expected PER of 22.4x, assuming a conservative earnings growth rate of 10.0%. We are optimistic that the VN-Index could breach 1,000 points by 2011.

Big caps to remain the major beneficiaries
We believe that big caps will remain the major beneficiaries of the upcycle of the equity market in view of their appeal to both retail and institutional investors in terms of investibility and tradability. We have selected five stocks in our 'Stocks to Watch' section, which we believe will continue to outperform the general market in view of their solid fundamentals and riding on strong investment themes.

Selected investment styles to outperform
The recent crisis and the shortened economic cycle no longer favour a long-term 'buy and hold' strategy to outperform the market benchmark, in our opinion. We foresee that the value investing style will outperform the growth investing style in the coming years. We believe that the leveraged distressed asset buyout, the imminent carry trades, dollar averaging and thematic value investing could be a few of the most profitable investment strategies that an investor could engage in, given the challenging investment environment.

Anh Tom Nguyen is a client of Kim Eng Securities Vietnam. Anh Tom has managed to make some money, thanks to the recent run up of the Vietnam equity market and is therefore particularly ecstatic about the equity market. Nonetheless, he is somewhat concerned about the prospects of the global economic recovery and the sustainability of the market rally going forward. As such, he has decided to seek an appointment with Kim Eng Research Vietnam to discuss about the market outlook. Our discussion with Anh Tom will shape the backbone of our strategy report.

Market Strategy

Anh Tom: Greatly appreciate your research house for giving me the opportunity to meet up. I am really looking forward to this meeting to seek your house's view about the market outlook for 2009.

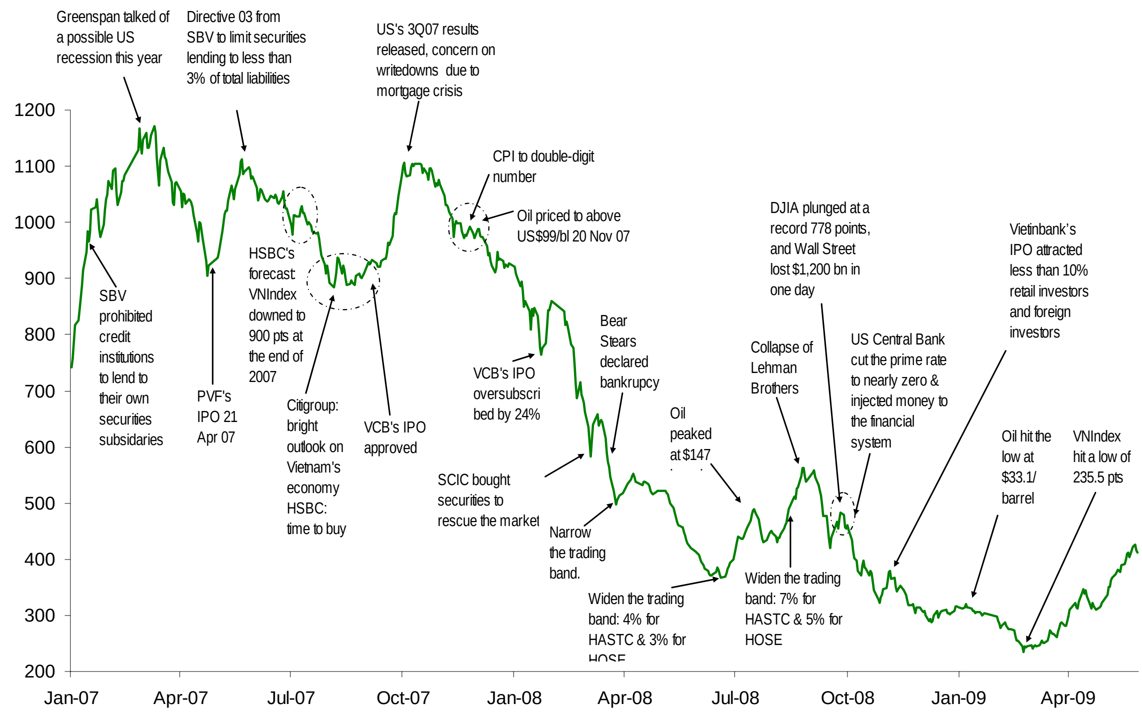
Kim Eng Research: It is always our pleasure, Anh Tom. We shall begin our discussion with an overview of the market performance in 2008 and the early part of 2009.

***Overview of the market performance*.** The performance of global equity market in 2008 was best to be forgotten. Years of excessive leveraging finally took its toll, starting from the latter part of 2007, and further deteriorated last year. The world suffered from the worst financial crisis since the 1930s, a crisis that has precipitated a sharp downturn in the global economy. We started with a credit crunch in the US that led to a meltdown in its housing markets. In September 2008, the collapse of Lehman Brothers brought us a step closer to the verge of 'Financial Armageddon'. The fall of the one-time fourth-largest Wall Street investment firm triggered a significant risk aversion and spiked up the cost of funds. As a result, the world underwent a deepened deleveraging phase that led to a significant squeeze in global liquidity and massive wealth destruction.

The global equity market had to endure a period of accelerated asset deflation given the continued liquidity crunch, significant risk aversion, cloudy earnings prospects and increased global uncertainties. The vulnerability of the emerging markets was particularly apparent in this 'Great Recession'. The favourite decoupling story of emerging markets has become a fairy tale of the past, crushed by the cruel reality. In fact, MSCI Asia Pacific ex Japan tumbled by 53.3% last year compared to a 38.5% drop in S&P 500.

Vietnam was not spared from this global crisis. In fact, the country had suffered from its homegrown credit crunch well before the US crisis spilt over to the emerging markets. To temper the hyperinflation fear in the Vietnam market at the early part of 2008, the State Bank of Vietnam (SBV) and the governmental authorities had aggressively tightened the monetary and fiscal policies. Given that the country's currency is tightly controlled by the SBV, the undesirable effects from the implementation of these contractionary macroeconomics policies were fully passed through to its major asset classes. As a result, the VN-Index plunged by more than 60.0% in 2008. This has unfortunately placed Vietnam equity index to be one of the worst, if not the worst performers in the world in 2008

Figure 1: The VN-Index



Source: KEVS

Anh Tom: Gosh,…I recalled the time when the major asset classes such as property and equity markets crashed and I saw my savings dwindling by more than half. The situation was so scary since not too long ago, Vietnam was the darling of the world and I heard that the foreigners were actively chasing up the properties and listed stocks. What a dramatic turn of events (Sigh…)…. After the meltdown of the property and equity markets, I put all my savings in the gold market and bank deposits. Nonetheless, I have started to invest some money in this market given the recent sharp upturn in the equity market and declining deposit rates. The market is so unpredictable, isn't it?

Kim Eng Research: I understand what you mean. It is always difficult to time the market movement since the bull often charges up, while the bear always rears its ugly head, when everyone least expects it. Therefore investment gurus like Peter Lynch has developed his own 'Cocktail Theory' to guesstimate the market movement while Warren Buffett has given up predicting the mood swings of Mr. Market, instead focusing on investing in value stocks using his favourite investment tenets. We have to admit that the equity market is really a strange learning place where the longer you stay, the more humble you become (quip). Let us go back to our overview of the market.

Most investors were licking their wounds given the massive wealth destruction in 2008. Many investors with adaptive expectations started the year of Buffalo believing that the disastrous economic downturn and market meltdown would continue. The market initially rebounded due to the rising hope of a new Obama administration taking charge. Nonetheless, the continued hiccups by the young and inexperienced US administration, coupled with a string of corporate scandals ranging from Satyam to Madoff, had dampened the already vulnerable investor confidence.

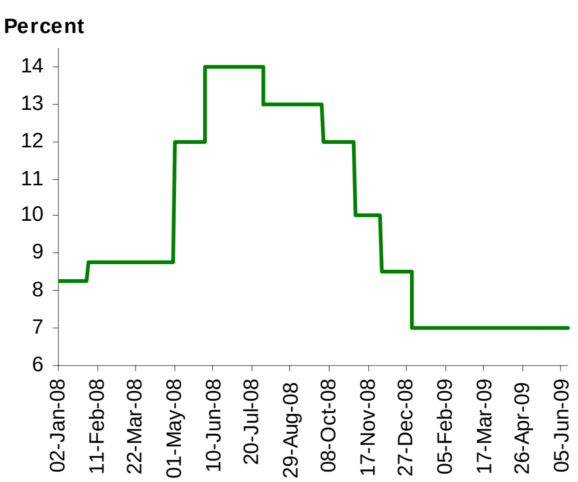
We observe that there were some bottom-fishing activities for the corporate giants such as Citi and AIG with hopes that these giants were too big to fail. Nonetheless, private investors soon realised that the US Government was determined to rescue these embattled corporate giants, rather than the existing shareholders. The realisation again led to a round of sell-offs and investors ran for cover. The Dow touched a low of 6,547.1 points on the 19th of March. Market sentiments were extremely bearish and many expected that this Financial Tsunami would soon drown the global economy.

To combat the fast spreading deflationary pressure and financial market meltdown, global government authorities and central banks have engineered a synchronised monetary loosening, massive fiscal expansion and substantial corporate bailout programmes. For countries such as the US, UK and EU, which were the worst hit by this 'Great Recession', their central banks have even employed unconventional stimulus programmes such as buying government bonds to rescue the financial system from the brink of bankruptcy.

In Vietnam, the Government had had to deal with an extreme economic cycle that rarely occurs even in rapidly developing economies. For the first six months of 2008, the government authorities were aggressively implementing contractionary economic policies to staunch the hyperinflation and asset bubble. Yet since the latter part of 2008, the country has had to endure a completely different set of economic challenges – a dramatic economic slowdown and potential deflationary issues due to the spillover effect from the global economic crisis.

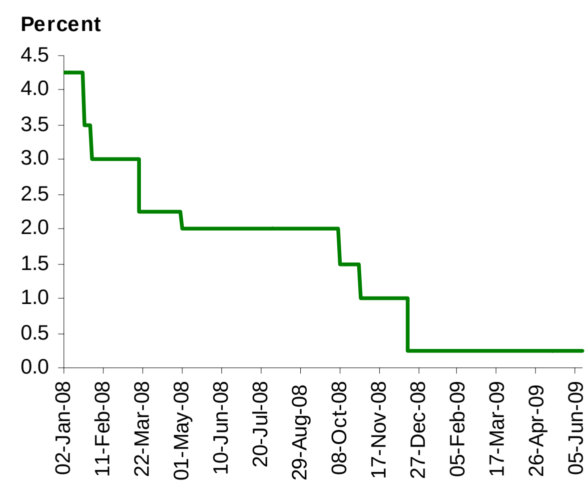
Since the second half of 2008, the SBV has slashed the prime interest rate from a high of 14.0% in June 2008 to the current 7.0% in order to reflate the economy. The required reserve ratio was lowered to improve the liquidity of the financial system. Furthermore, the Government has announced the implementation of multibillion fiscal projects to pump prime the economy. Nevertheless, these expansionary measures have failed to prevent the Vietnam equity market from falling, at least, for the first two months of 2009.

Figure 2: Vietnam Base Rate



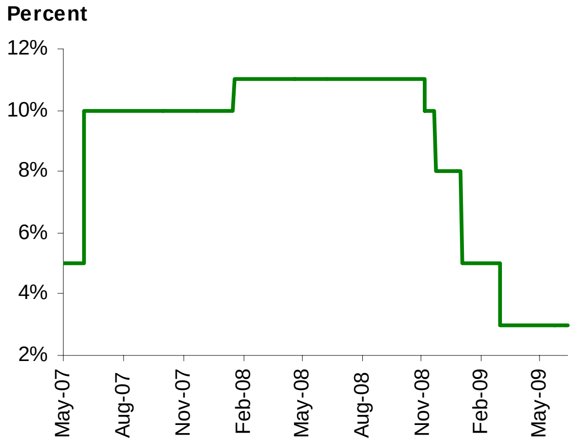
Source: State Bank of VietNam, Bloomberg

Figure 3: Fed Fund Rate



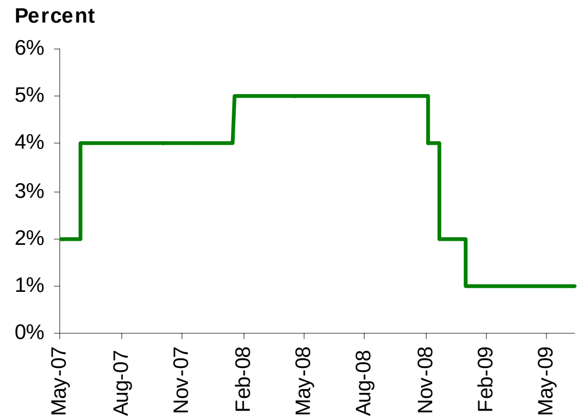
Source: Bloomberg

Figure 4: Required Reserved Ratio of VND Deposits Within Twelve Months



Source: State Bank of Vietnam, Bloomberg

Figure 5: Reserved Ratio of VND Longer Than Twelve Months



Source: State Bank of Vietnam, Bloomberg

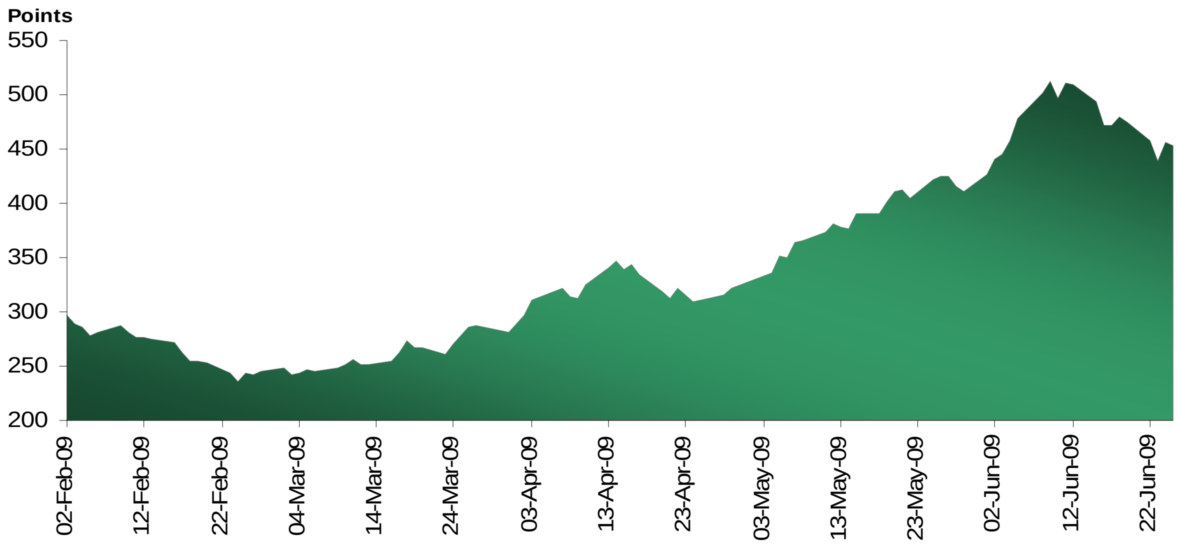
Anh Tom: Yes. I remember that. The early part of 2009 was so terrible that I suffered from sleepless nights. Bad news everyday and it was like doomsday was fast approaching. The SBV continued to cut rates and pump in significant VND into the financial system, but the downward spiral continued. I recalled that my heart sank when the VN- Index collapsed to 235.5 points on the 24th of February 2009 and my deposit rates with the banks dropped to a single digit. Come to think of it, this happened just a couple of months ago…. What a dramatic change…(Sigh of relief)!!

Kim Eng Research: You are absolutely right. The economic situation and equity market development have definitely evolved significantly during this highly volatile period. Looking at the current market euphoria and potential green shoots on the economic front, it is hard to believe that things have changed so dramatically within such a short span of time. In fact, this is precisely what we are sceptical of and we will discuss it further later in our meeting. For now, let us continue with our discussion on the market development in early 2009:

Things began to take a positive turn in the latter part of the first quarter. In the US, the equity market has started its recovery since dipping to a multi-year low back in March. Initially, investors perceived the recovery in the stock market as a 'dead cat bounced' phenomenon or a 'bear market rally'; no one was convinced that it was a start of a secular bull cycle. Nonetheless, the sustained rally in the global equity market has silenced many bull critics who had believed that the upsurge would be short-lived. From its low on the 9th of March, the Dow and the S&P have experienced uninterrupted bull runs with only a minor pullback until early June.

Nonetheless, these performances were pale in comparison with the run- up of the VN-Index. The rally in Vietnam equity market started on the 25th of February, ahead of the US and regional equity markets. From the low of 235.5 points registered in February, the market has yielded a breathtaking gain of 117.6% to its recent high of 512.5 points as illustrated by the graph below:

Figure 6: Performance of the VN-Index from February 2009 to present



Source: Bloomberg

Anh Tom: I am sorry to interrupt you, but I am interested to find out more about this 'bear market rally', which seems to be a hot topic in the media since the run up of equity market.

Kim Eng Research: Buddy, I am glad that you have brought up this issue since I believe that many investors are still confused with this terminology despite its popularity. A bear market rally represents a short-term spike in prices in a primary trend bear market. As such, a market could have staged a strong rally, even as it remains on a general downtrend.

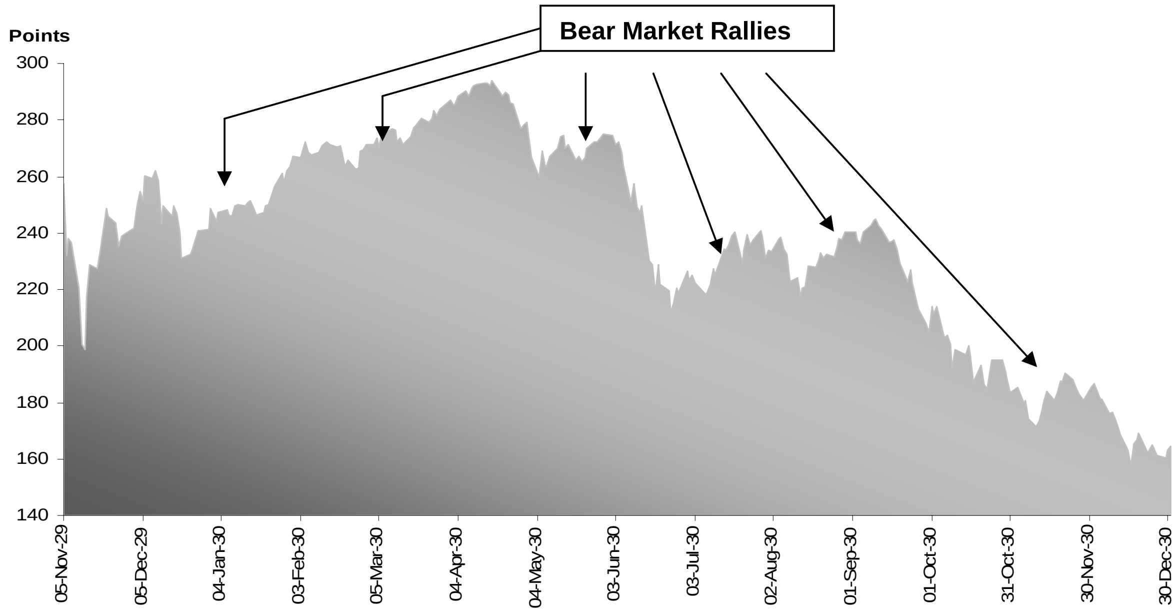
Anh Tom: I am still not clear about this terminology….Anyhow, I am more interested to know whether this run-up is a bear market rally or not, given that it is important for me to formulate my investment strategies (grin).

Kim Eng Research: Unfortunately, no one including us could conclude with strong conviction whether this is a bear market rally, or the start of a secular bull cycle. A bear market rally could last for months. What we can say is that a bear market rally typically ends lower than where it started. Maybe I could give you an example to illustrate my points. Let us look at the most famous bear market rallies that occurred after the October crash of 1929.

Anh Tom: I am all ears.

Kim Eng Research: In 1929, the global economy entered the early phase of the 'Great Depression'. The equity market reacted with high volatility. Following the low of 198.7 points registered on the 13th of November 1929, the US stock market began to recover strongly due to its oversold position and bullish comments by many respected Wall Street personalities. The Dow rallied to a high of 294.1 points in April 1930 (up by 48.0%) before melting down. By the end of 1930, the Dow broke below the November 1929 low and fell to 157.5 points before plunging to 41.2 points in July 1932. This market movement of the Dow from November 1929 to December 1930 is illustrated below:

Figure 7: Performance of the DJIA from November 1929 to December 1930



Source: Bloomberg

Anh Tom: Errrr….looking at the run-up from November 1929 to April 1930, I have to admit that there was a stark similarity to the recent surge in the market. Does it mean that the recent run-up in the market represents a bear market rally (grin nervously)?

Kim Eng Research: I hear you (grin….). Our primary investment thesis is that we believe that the recent run-up in global equity market, although it has overshot the fundamentals, is not a bear market rally, because we are seeing signs of global economic stability. Although the path to a sustainable global recovery would still be fraught with plenty of challenges and hiccups going forward, we believe that the economic slowdown is nearing its bottom. Our cautiously optimistic view of the economy prospects is supported by the following factors:

- It is important to note that this is the first time that the central banks and Government officials around the world have joined forces to engineer a massive stimulus programme to combat this 'Great Recession'. Although some economies are more conservative with the pace and quantum of their respective stimulus programmes, we have witnessed an overall well-coordinated, synchronised monetary loosening and fiscal expansion around the globe. It is hard to imagine that these concerted efforts cannot stop the global economy from bleeding.

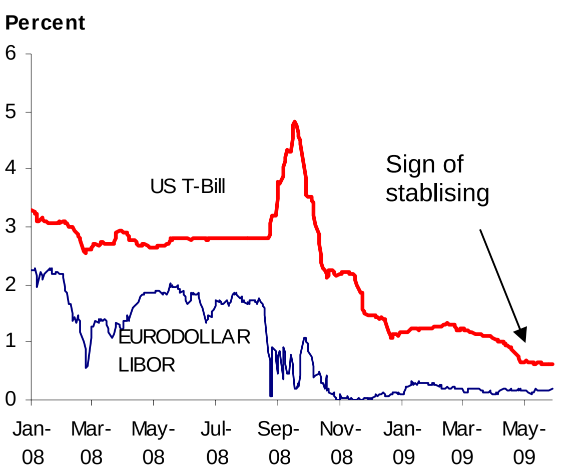
Figure 8 : Global Stimulus Package (Extract)

Country	USD bn
US	$787.0
UK	$110.0
EU	$274.0
Japan	$154.0
China	$586.0
Total	**$1,911.0**

Source: Bloomberg, Various

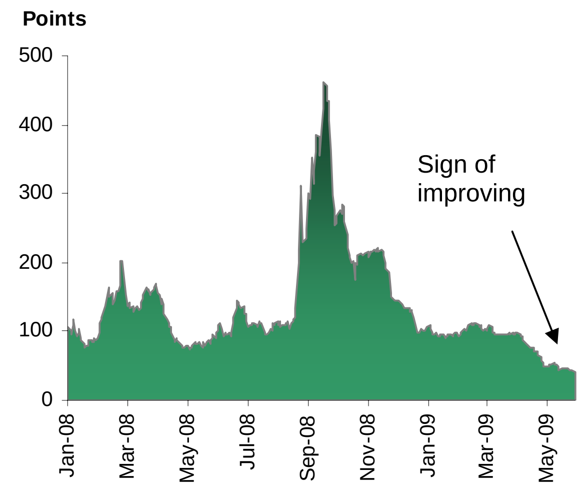
- We are seeing encouraging signs that the worst of the credit crisis may be over. The 'Ted spread', that shows the difference between what banks and the US Treasury pay to borrow money for three months, has continued its steady narrowing to less than 60.0 basis points recently. This is its lowest level since August 2007, indicating that the markets are regaining confidence in bank lending. Libor, the interest rate at which banks lend to one another, has also fallen steadily as the liquidity measures of recent months have taken effect. Furthermore, the stress test results and the ability of the US banks to recapitalise themselves to strengthen their balance sheet during the recent rally have indirectly dispelled the fear of potential bankruptcy in US financial system.

Figure 9: US T-Bill Vs. Eurodollar LIBOR



Source: Bloomberg

Figure 10: US TED (Three Month Spread)

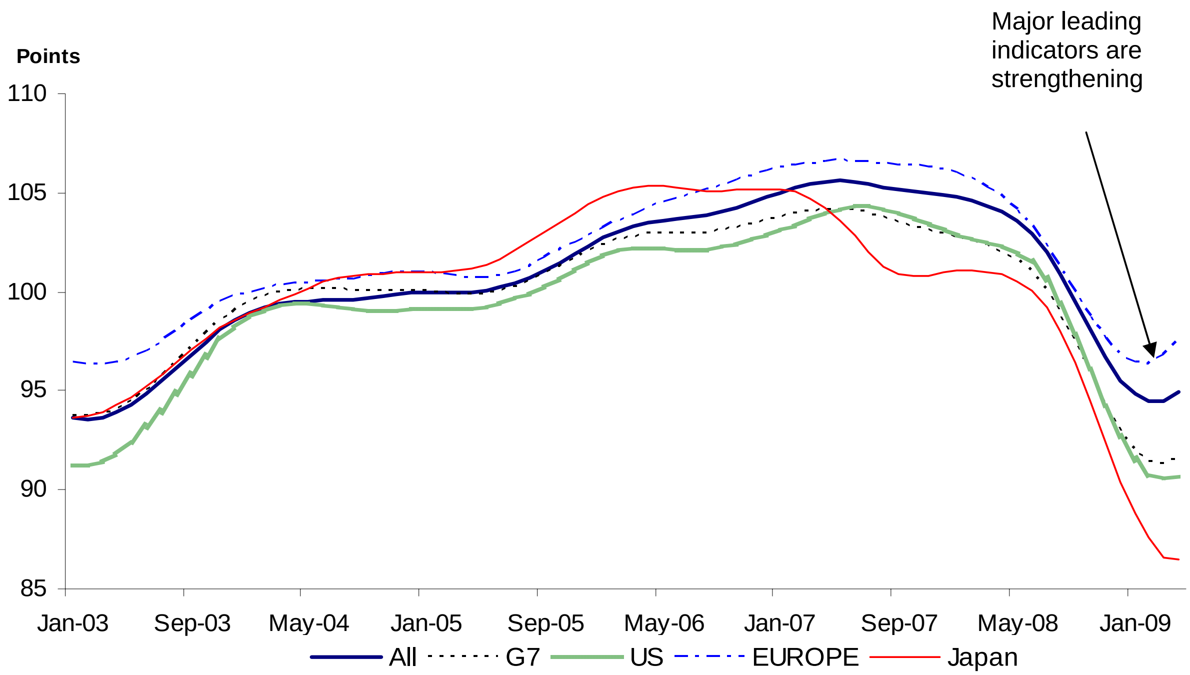


Source: Bloomberg

- We do not expect a repeat of the 1930's catastrophic protectionist policies that contributed to an implosion of world trade in which U.S. export volumes dropped by almost 50% between 1929 and 1932. The economic team in the new Obama Administration looks too smart to let history repeat itself, in our opinion. Although we understand that the rise of small-scale protectionist practices is politically motivated and unavoidable, we do not foresee a full-scale trade war between countries.

- The leading economic indicators that are designed to provide early signals of the economic growth cycle are showing signs of life. In fact, the index of U.S.' leading economic indicators rose by 1.2% in May after a 1.1% gain in April, the best back-to-back performance since November and December 2001. The leading economic indicators of other countries are inching up too. This shows that the global economy may be riding on a path to recovery.

Figure 11: The leading indicators of Major Economies



Source: Bloomberg, OECD

- We also believe that the US will be one of the first economies to come out from this 'Great Recession', despite the fact that this crisis originated from the US.…

Anh Tom: (Interrupted) You are kidding me, aren't you? Given that this crisis started from the US economy, I would expect them to be one of the last economies to emerge from the 'Great Recession'……..

Kim Eng Research: Buddy, I get what you mean. The unfortunate thing is that this crisis originated from US and has evolved to become a global crisis. The silver lining is we believe that the US is one of the few economies in the world that could muscle out of its homegrown crisis. This could in turn speed up the global recovery.

Since the collapse of Lehman Brothers and the further deterioration of the US economy, the US Government has acted decisively to fend off the deflationary pressure and repair the broken financial system. The massive stimulus packages amounted to USD787.0bn for 2009 were passed without major hiccups. Mr Bernanke also introduced creative quantitative easing programmes such as purchasing government bonds to improve financial liquidity and to suppress the long-term bond yield.

To combat the embattled economy, the US administration even engaged in some controversial measures such as abandoning the mark to market accounting policy, restricting short selling activities and twisting a banking giant's arm to acquire its rival. To accelerate the restructuring of Chrysler and General Motor, the Obama administration has even overturned legal principles by giving more privileges to junior debt holders at the expense of senior debt holders.

Finally, the US is the only nation in the world that is able to take advantage of its global reserve currency status to issue a dollar denominated debt and print money to buy back its debt. The massive printing of the dollar by Mr Bernanke has attracted many critics and inspire some humour during this trying period. From the internet, you can easily read a number of them such as 'the US Central Bank is printing so much money that there would not be enough paper left for toilet tissue' and 'Mr Bernanke is part- time running the Fed, full-time operating a paper printing business'…… (grin)

Anh Tom: Haha!! Looks like the prices of timber and paper are going to be the cause of inflation soon…..(laughing). But aren't the US debt holders aware of this?

Kim Eng Research: To some extent, this represents a variation of the Ponzi Scheme at which its success depends largely on whether the debt holders are willing to continue financing it. The interesting thing is that the debt holders are well aware of the 'debt trap' that the US is heading. Yet they have no choice, but to continue financing it, given that any failure of the US Government bond's auction could trigger a dollar crisis and collapse in the value of their holdings of US assets, not to mention its domino effect on the global economy. We observe that recently, some US bond auctions were facing some resistance from its potential investors with many demanding for higher yields. However, we do not foresee any potential failure in US bond auctions going forward.

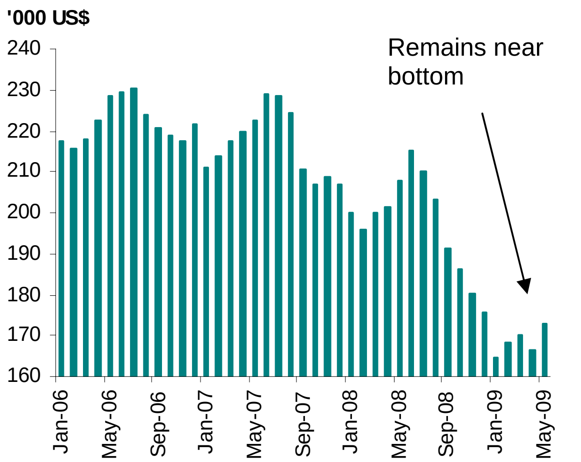
Nonetheless, the massive dollar supply in the global economy will inevitably lead to a gradual depreciation of the value of the dollar. Furthermore, the increased foreign debt over GDP in the US could lead to a rating downgrade by the major rating agencies. Therefore, we believe that dollar will eventually lose its status as a global reserve currency and the question lies only on the timing. That is the main reason why we believe that the US equity market will underperform the emerging markets going forward, despite being the first country to come out from this 'Great Recession'. Considering all the factors outlined above, we expect there will be an occurrence of a new investment phenomenon, Dollar Carry Trade, which could supercharge the equity performance of the emerging markets. We will elaborate this investment strategy in the latter part of this discussion.

Anh Tom: I see. Given the massive stimulus package executed by the Government officials and the Central Banks around the globe, I believe that we are heading for a speedy recovery, am I right?

Kim Eng Research: Unfortunately, we do not think so. Although we do witness some green shoots in the present global environment, we believe that the deflationary pressure will continue to haunt the global economic at least for this year. Our observations are as follows:

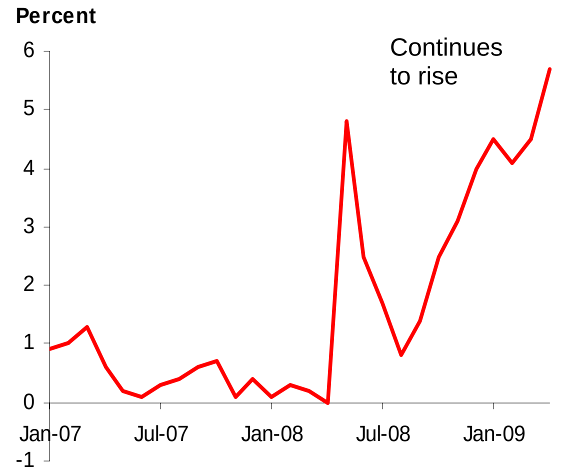
Private consumption to remain lackluster. We believe that a sustainable global and US recovery would only occur with the revival in US consumption given its weight in US GDP components, its impacts on US private investment and exporting countries. Nonetheless, we expect US private consumption to remain subdued going forward, given the deteriorating consumer's balance sheet that is adversely affected by negative housing equity and rising unemployment rate. The medium selling price of US existing home was USD173,000 per unit in May, representing a drop of 24.9% from its peak of USD230,300 recorded in July 2006 and remained close to its bottom, while the U.S. unemployment rate has recently inched up to 9.4%. Some economists believe that the US housing and unemployment rate may only stabilise in the latter part of 2010 or even 2011. On the other hand, rising saving rates among the US consumers means that leveraged consumption may be a thing of the past. This again has continued to put a downward pressure on the US and global economic growth.

Figure 12: The Median Price of Existing US Home Sales



Source: Bloomberg

Figure 13: US Saving Rate



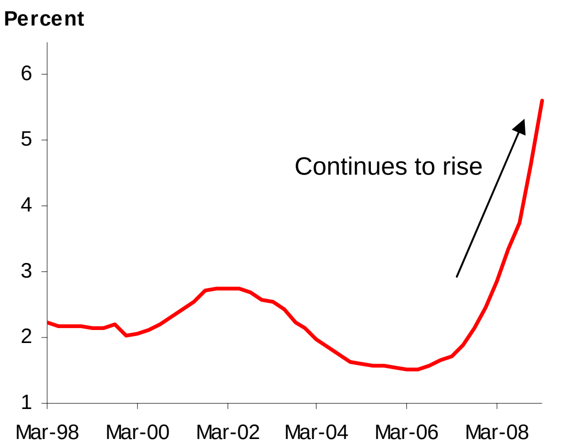
Source: Bloomberg

Public expenditure to offset decline in private spending. It remains to be seen whether the multi trillion-government stimulus programme is sufficient to offset the decline in consumption and investment in the private sector. This is particularly a pressing problem in the US given the leveraged consumption with easy credits was a major factor contributing to strong US GDP growth in the past. In some export-dependent economies, they will have to overcome the sharp decline in exports, consumption and private investment through massive government spending.

Credit market remains tight. Despite the central bank's effort to expand its money supply and slash its interest rate, we expect the credit market to remain tight going forward. The increased uncertainty caused by this 'Great Recession' means that providing loans are riskier, leaving banks reluctant to extend credit without higher interest rates and stringent credit check. On the other hand, the economic slowdown has reduced expected returns for businesses, making it difficult for prospective borrowers to bear the burden of higher rates. A recent survey in the US shows that the dollar amount of new loans issued by the 21 biggest recipients of taxpayer funds under the government's Troubled Assets Relief Program (TARP) fell by 7.0% to $273.0bn in April compared with nearly $295.0bn in March. New commercial and industrial loans were significantly lower, falling by nearly 29.0%. Weakness was also notable across a wide variety of consumer loan categories, including first mortgages and credit cards.

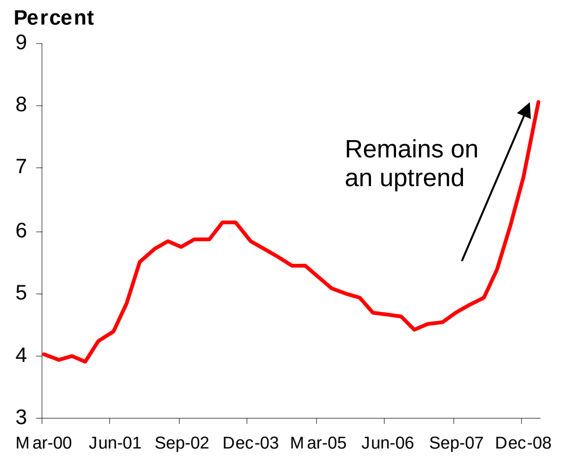
Loan loss provisions could widen further. A recent report published by the Federal Deposit Insurance Corporation (FDIC) shows that the number of loans more than 90 days past due climbed across all major loan categories. Regulators are seeing increasing woes in the commercial real-estate mortgages and the credit card loans. Troubled loans continue to accumulate, and the costs associated with impaired assets are weighing heavily on the banking sector's performance. Given the continued challenging economic environment, we are not surprised that the asset quality of the U.S. banks may deteriorate further. We are also sceptical about the retention of toxic assets on the bank's balance sheet with the deferral of the public private investment programme (PPIP).

Figure 14: US Delinquencies as a % of Loan



Source: Bloomberg

Figure 15: U.S. Unemployment Rate



Source: Bloomberg

In fact, the World Bank has recently announced that it expects the global economy to contract by 2.9% in 2009, which is far bleaker than its early estimate of a -1.7%-contraction in March, while IMF has maintained its forecast for global economic growth of -1.3% and 1.9% for 2009 and 2010, respectively. The stark differences in the forecasts between the two reputable organisations underscore the challenges in predicting the global economic outlook given the uncertainties involved. Nonetheless, both expect the global economy to register positive growth in 2010.

Figure 16: Global Economic Growth

Real GDP Growth	2007	2008	2009E	2010E	2011F
World	**3.8**	**1.9**	**-2.9**	**2.0**	**3.2**
High-income	*2.6*	*0.7*	*-4.2*	*1.3*	*2.4*
Euro Area	2.7	0.6	-4.5	0.5	1.9
Japan	2.3	-0.7	-6.8	1.0	2.0
United States	2.0	1.1	-3.0	1.8	2.5
Developing	*8.1*	*5.9*	*1.2*	*4.4*	*5.7*
East Asia and Pacific	11.4	8.0	5.0	6.6	7.8
Eur. Central Asia	6.9	4.0	-4.7	1.6	3.3
Latin America & Carib.	5.8	4.2	-2.2	2.0	3.3
Middle East/N. Africa	5.4	6.0	3.1	3.8	4.6
South Asia	8.4	6.1	4.6	7.0	7.8
Sub-Saharan Africa	6.2	4.8	1.0	3.7	5.2

Source: World Bank

On the other hand, the IMF estimated that the U.S. and European banks need to raise $875.0bn in equity by next year to return to levels similar to the years before the current crisis and twice that amount to match the levels of the mid-1990s. The steep funding requirements reflect a financial crisis that continues to deepen given that the banking sector's woes have spread from the housing sector to commercial real-estate loans and emerging-market debt. Overall, the IMF predicted that the U.S., European and Japanese financial sectors would face losses of about USD4.1tn between 2007 and 2010. The risks remain that the banks' problems will continue to exert a downward pressure on economic activity. The officials also believe that recent market improvements have not been significant enough to alter the overall outlook.

The global equity market has turned increasingly jittery after the world financial leaders started to review the appropriate measures to unwind their emergency stimulus package in the recent G-8 Summit. Nonetheless, we believe that the unwinding plan is being devised for the coming years, rather than the near term. Given the vulnerability of the global economy, it would be premature to expect G-8 ministers to roll back their spending packages in the near term, in our opinion.

Given the uncertainties outlined above, we view the recent explosive surge in the global equity market to be unsustainable. This is because we believe that the massive run-up in the global equity is an attempt to price in the 'blue sky', rather than some 'green shoots'. Unfortunately, we consider that the global economies may not have produced sufficient rocket launchers to reach that blue sky (quip)…..and disappointments are likely to follow suit. Other than a few outliers, we maintain our investment thesis that the majority of the economies would experience gradual and challenging 'U'-shaped recoveries, rather than a 'V'-shaped upturn. As forewarned in our strategy report published on the 19th of May titled ***'Bull Critics: Down but Not Out'***, we view the current consolidation phase to be long overdue and healthy in nature given that the market is running far ahead of its fundamentals.

Anh Tom: Sigh…..Seems like the challenging phase is not over yet. So what is your house's view on the economic outlook of Vietnam then?

Kim Eng Research: We believe that Vietnam is one of the few economies that will continue to strive despite the challenging external environment. Although the GDP for 1H2009 expanded only 3.9% on a y-o-y basis, we expect growth to pick up with looser economic policies staying in place. Even though we believe that the economy growth is unlikely to return to the high rates of recent years in the near term given the external uncertainties, we are optimistic that the domestic economic prospects will improve going forward. Our sizeable local market will support domestic demand and the competitiveness of exports, with a bias towards basic goods and commodities.

Similar to the regional economies, we are positive that the stimulus programme introduced by the Government will help to sustain its economic growth going forward. Since early 2009, the Government has announced multibillion mega projects to pump prime the economy. Besides, the central bank and the Government have also offered subsidised loans at 4.0% to businesses and individuals to stimulate the economy. Other expansionary economic measures include the reduction in banks' reserve requirements and the extension of credit guarantees to small and medium enterprises, as well as tax breaks to individuals. The major stimulus packages are outlined below:

Figure 17: Vietnam's Stimulus Package

	VND bn	USD bn
Interest subsidised loans	17,000	1.0
Temporarily collection from advance for basic construction investments	3,400	0.2
Advance from state budget on urgent projects	37,200	2.1
Transfer from unspent amount on 2008's projects to 2009 projects	30,200	1.7
Government bond issuance	20,000	1.1
Tax breaks for enterprises and individuals	28,000	1.6
Credit guarantees for export activities and the purchase of machinery and equipment that serve agricultural production	17,000	1.0
Other expenditures	7,200	0.4
Total	**160,000**	**9.1**

Source: KEVS, Various

Anh Tom: How about the domestic inflation rate that was haunting the Vietnam economy in the early 2008?

Kim Eng Research: Consumer inflation is now back to single-digit rate and likely to head lower with subdued domestic activity and the collapse in commodity prices. Consequently, the central bank's policy interest rate will probably stay low for some time. We forecast inflation to average 7.0% this year and the policy rate to remain at 7.0% till yearend.

We believe that the declining inflation rate is also a powerful stimulus apart from the announced stimulus package as it restores purchasing power to consumers. It is especially potent when private consumption is a major part of the economy, such as it is in Vietnam, where it accounts for more than two-thirds of its GDP. With the sharp slowdown in exports as a result of the global crisis, which is reflected primarily in negligible growth in manufacturing (0.5% y-o-y in 1Q09 from 6.3% in 4Q08) and agriculture (0.6% from 3.9%), reviving private consumption can take up some of the slack in the economy.

With the expected slow recovery in global trade, we believe Vietnam's GDP growth will slow down to 5.2% this year from 6.2% in 2008. As global trade strengthens in 2010, we expect growth to strengthen as well, but concerns about the high budget deficit and fears of rekindling inflation will likely restrain public spending and keep the central bank on guard. Additionally, because of the worldwide move for fiscal stimuli, foreign capital flows are unlikely to return to the high levels seen in previous years. Thus GDP growth will improve, albeit modestly. Our 2010 GDP forecast is 6.5%.

Figure 18 : Vietnam Economic Outlook

	2003	2004	2005	2006	2007	2008	2009E	2010F
GDP	8.5	7.5	5.8	6.5	8.5	6.2	5.2	6.5
Agriculture	3.6	4.4	4.0	3.4	3.7	3.8	2.5	3.4
Industrial Sector	10.5	10.2	10.6	10.4	10.6	6.3	3.7	5.6
Construction	10.6	9.0	10.8	11.1	12.0	0.0	7.4	8.3
Services sector	6.5	7.3	8.5	8.3	8.7	7.2	7.0	8.1
EXPENDITURE								
Private consumption	8.0	7.1	7.3	8.3	10.8	9.2	4.1	6.0
Public consumption	7.2	7.8	8.2	8.5	9.0	7.3	5.6	6.5
Total Investment	11.9	10.5	11.2	11.8	26.8	6.3	2.9	5.4
Net exports	47.0	-4.2	-18.9	24.8	184.2	3.8	-23.0	3.0

Source: KEVS

Given the massive liquidity injections made by the U.S. Federal Reserve in response to the crisis and the deep-seated problems of the U.S. financial system, growth in the U.S. economy is probably going to be below trend for some years and interest rates low. As a result, the greenback is likely to be weak against most currencies. In this context, the VND is expected to be largely stable, with a bias towards appreciation as exports recover in future months. Our key economic forecasts are stated below:

Figure 19 : Key Economic Forecasts

	2007	2008	2009E	2010F
GDP	8.5%	6.2%	5.2%	6.5%
Consumer inflation	8.3%	23.1%	7.0%	6.4%
VND/USD, end	15,995	17,380	17,560	16,172

Source: KEVS

Anh Tom: I hate to interrupt you again, but an important issue just crossed my mind, and I wish to seek a clarification from you. Nowadays, I have read a number of news reports concerning the rising trade protectionism starting from the 'Buy American Measures' to now 'Buy China Policies'. I am concerned that this could trigger outright trade wars among the nations. Given that Vietnam continues to be a trade-dependent country, I believe that occurrence of such event would be devastating for its economic growth, am I right?

Kim Eng Research: We do share your concern. In fact, we believe that the two major risks that could derail not only Vietnam, but also the global economic recovery, are the uncontainable swine flu pandemic and outright trade wars among the trading nations. In the past, the extreme example of protection-gone-awry is the Smoot- Hartley Act of 1930 introduced in the U.S. In an attempt to protect domestic manufacturers, the act put a tariff on a broad range of imports coming into the U.S. Other nations retaliated with their own tariffs and global trade grounded to a halt. In fact, many economists believe that it played a key role in turning a recession into the 'Great Depression' back in the 1930s.

Although some small-scale trade protectionism is unavoidable during this trying period, we do not foresee any outright trade war among countries given the painful lesson learned in the past particularly during the 'Great Depression' era. Many economists understand and acknowledge the undesirable effect of rising protectionism that could lead to losses for trading countries. Coincidentally, China, the largest manufacturer and exporter in the world, is also the largest U.S. creditor and fast emerging as a world superpower. This has helped to tone down the protectionism act in the developed nations. The accusation of 'currency manipulator' seems like a saying of the past and the 'Buy American Measures' implemented was very different from its original form campaigned by Mr Obama. Things would have been very different if this crisis had happened five years ago, in our opinion.

In fact, we are cautiously optimistic that the emergence of small-scaled protectionism may be beneficial for Vietnam…..

Anh Tom: (Interjected)….why?

Kim Eng Research: In the past, many research reports have outlined the attractiveness of investing in Vietnam. The most apparent ones being a young and hardworking population, relatively low cost structure, continued economic liberalisation, stable political scene, an investment- friendly environment and 'China Plus One policy'. Nonetheless, we believe that an important credential of Vietnam has not been widely publicised, but it will be the key factor to sustain the economic growth of Vietnam going forward, in our opinion.

Anh Tom: What is that?

Kim Eng Research: It is the international goodwill that Vietnam continues to enjoy with most of the developed nations around the globe. Being a socialist-oriented market economy that is actively engaged in economic liberalisation and expanding its international reach, we observe that most of the global superpowers are pleased to support the development of Vietnam. As such, we believe that small-scaled trade protectionism may induce manufacturing companies to diversify their operations to countries with strong international goodwill like Vietnam. Therefore, we maintain our optimism that Vietnam is well-positioned to attract strong inflows of foreign direct investments (FDI), despite the challenging external environment.

Anh Tom: I understand where you are coming from (grin). So what is your outlook for the equity market going forward…?

Market Outlook

Kim Eng Research: As highlighted in our recent report published on the 19th of May titled ***'Bull Critics: Down But Not Out',*** we maintain our investment position as follows:

We view the current consolidation phase as being long overdue and healthy in nature given that the market has run up far ahead of its fundamentals. We believe that there will be a more sustainable rally in the latter part of this year with more signs of green shoots coming along and the loosening of the credit market. We remain optimistic that emerging markets will continue to outperform developed markets within the one-to-three-year investment horizon. Our investment thesis is outlined below:

The emergence of carry trade. As mentioned before, we believe that the U.S. dollar will go through a long-term structural decline going forward, given the massive supply of greenback, ballooning U.S. deficits, and the potential downgrade of the U.S. bond rating. This will lead to the 'Dollar Carry Trade' investment phenomenon. The liquidity generated from this leveraged investment strategy will not flow back to the U.S. equity market in the absence of currency gains, in our opinion. We also do not expect a significant amount to flow into the European market given the continued challenging economic prospects and cloudy earnings outlook. Therefore, the emerging markets, particularly the Asian equity market, will be the biggest beneficiaries from the Dollar Carry Trade. We also foresee that the Japanese government may need to curb the strength of the yen in order to maintain the competitiveness of its exports during this challenging period. This could potentially offer another liquidity driver with the resumption of the 'Yen Carry Trade'.

Higher valuation multiple. We believe that emerging markets should deserve a higher price earnings (P/E) multiple supported by resilient economic growth, currency stability and a healthy financial system. Furthermore, the continued liberalisation of emerging economies also offers good investment themes as opposed to the ongoing 'nationalisation' of developed economies.

High beta play and lower valuation multiple on U.S. equity market. We foresee that more funds will flow into the high beta emerging markets in order for the fund managers to catch up after missing the recent rally. Besides that, uncertainties on whether U.S. dollar will lose its status as the sole global reserve currency could continue to suppress the valuation multiples of the U.S. equity market even if the U.S. economy were to recover. We observe that the recent developments have not been favourable to the U.S. dollar. The upcoming powerhouses, Brazil, Russia, India and China, known as the BRIC economy, are working towards using their own currencies in trade transactions rather than U.S. dollar. IMF has also recently acknowledged the possibility to take a revolutionary step of creating a new global reserve currency to replace the dollar over time.

Unfavourable risk reward ratio to invest in the U.S. equity market? It is hard to compare the risk reward ratio between investing in emerging markets and the U.S. market. From an academic perspective, we apply standard deviations and/or beta to quantify an investment risk. We also use the Sharpe ratio and/or alpha to calculate the risk adjusted return. However, should we drop these quantitative methodologies aside and judge it purely from a common sense point of view, the ongoing crisis has shown us that investing in the U.S. has not been as safe as many had thought compared with the emerging markets. The biggest corporate scandals continue to stem from the U.S. ranging from Enron and Worldcom in the early 2000s to the current Madoff and Stanley.

The share prices of some U.S. blue chips such as Citigroup, Bank of America and AIG have tumbled to their multiple lows before recovering. Other corporate giants such as General Motor, Chrysler and Lehman Brothers have collapsed, which have caused bloodshed to many shareholders. In fact, we gather that many private investors are wary that going forward, lawyers may use the Chrysler and GM cases, in which junior debt holders are given more privileges at the expense of senior debt holders, as a precedent for cutting deals with selected creditors and dodging approval from other stakeholders. Therefore, investors should seriously consider whether investing in developed markets such as the U.S. truly offers reduced investment risk and higher shareholder protection. To some, the answer is obvious.

In fact, reputable pension funds in the region such as Temasek has recently announced that it would focus more on Asia and other emerging markets such as Latin America and Russia as it reduces its exposure to the U.S. and Europe given the relatively attractive risk reward ratio in the former markets.

Anh Tom: I do share your optimism on investing in the emerging markets. In fact, I have seen many funds that were previously investing in developed market have been shifting their focus to the emerging markets. Given the ongoing uncertainties, what kind of investment strategy should I employ to outperform the market? I am also interested to find out which country offers attractive investment criteria.

Kim Eng Research: Buddy, these are indeed good questions, particularly during this challenging period when economic prospects remain highly uncertain and the market continues to be volatile. Considering the current difficult investing environment where we expect economic recovery to be tough and the earnings outlook to remain cloudy, we foresee that the value investing style will outperform the growth investing style in the coming years. Although we believe that the equity market has run ahead of its fundamentals in the recent explosive rally, we expect value to re-emerge in the stocks upon undergoing the current consolidation phase.

We also observe that the economic cycle has been shortened significantly considering the fact that we have endured two recessions (i.e. 2000 dotcom burst and the current ‘Great Recession’) in one decade. In fact, we believe that the occurrence of the boom and bust cycle will be more frequent going forward given that the era of Goldilocks economy characterised by a sustainable economic growth with low inflation may unlikely repeat itself. The shortened economic cycle no longer favours a long-term ‘buy and hold’ strategy to outperform the market benchmark, in our opinion. Furthermore, the recent collapse in the global equity market where the Dow plunged to its low in multiple years has shown us that engaging in a ‘buy and hold’ strategy with a long investment horizon may not yield a fruitful return for investors.

Upon examining the various factors discussed above, we believe that the leveraged distressed asset buyout, the imminent carry trade, dollar averaging and thematic value investing could be a few of the most profitable investment strategies that an investor could engage in given the challenging investment environment. Since the former two are more suitable for sophisticated institutional investors, we believe that the latter two should be employed by a disciplined retail investor who wishes to outperform the market consistently in the coming years.

We also would like to caution investors that the dollar carry trade might not be as profitable as the previous era of the yen carry trade. This is because many countries will not want their currencies to appreciate excessively against the greenbacks, given that the U.S. remains the largest consumer in the world. Secondly, we expect the U.S. Dollar to continue to be an attractive asset for flight to safety in the near to medium term. Given the current challenging environment, any event that causes risk aversion would trigger a fresh round of deleveraging, which could make the Dollar carry trade a demanding investment strategy.

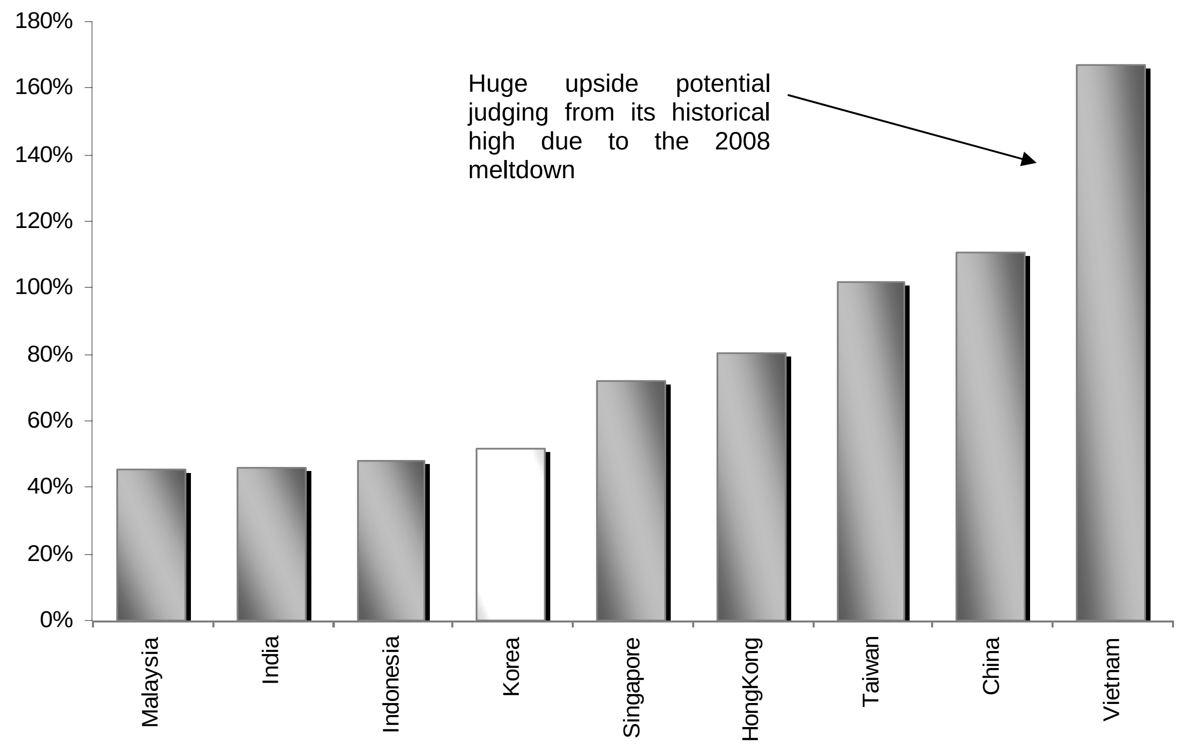
From a country perspective, we believe that markets with strong economic fundamentals and offer good investment themes will continue to outperform. Therefore, we advocate that investors who engage in cross border investment should overweight Vietnam, which serves as an ideal investment destination that could yield a higher than average return.

Anh Tom: Yes. I recall you mentioned in your research report titled *'Bull Critics: Down but Not Out'* that Vietnam will be one of the top gainers in the coming years. Why are you so optimistic about Vietnam equity market?

Kim Eng Research: Yes. We have a strong conviction that Vietnam will be one of the top gainers in the coming years given that it provides strong investment themes supported by solid fundamentals. In fact, we believe that the Vietnam equity market offers an attractive upside potential to investors, but remain under-explored by foreign investors.

We observe that, despite the breathtaking upsurge of the VN-Index, its valuation continues to remain reasonable compared to the regional equity markets and other frontier markets. This is mainly due to the severe drop of the Vietnam equity market starting from the early 2008 where the VN-Index plunged by 79.9% from its historical high of 1,170.7 points to a year low of 235.5 points recorded in February 2009. Even with the recent explosive run-up, the VN-Index continues to trade at a vast discount from its historical high compared with the regional markets. This illustrates the huge upside potential that any well-positioned investor could take advantage of:

Figure 20: % increase of the Regional Indices from the Present Level to Reach Their Respective Historical Highs



Source: Bloomberg

Anh Tom: But don't you think that the fundamentals of Vietnam may have deteriorated compared to before?

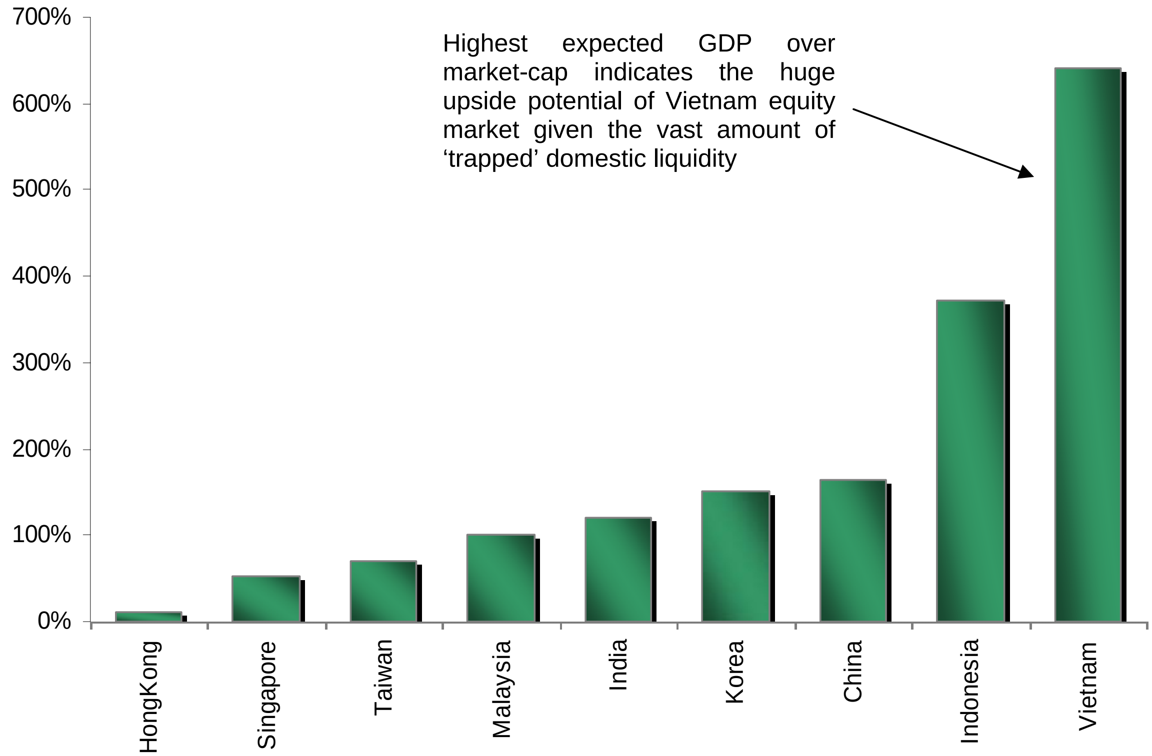
Kim Eng Research: We do not think so. We continue to believe that the fundamentals of Vietnam have not altered much and remain solid. In fact, we believe that the previous negative factors that cause the Vietnam equity market to collapse, such as the hyperinflation fear and the over-tightening of economic policies that led to the home grown liquidity crunch no longer exist. In fact, we observe that Vietnam equity market has established a unique trading pattern in the recent rally. The market has turned out to be a high beta play when regional equity markets charged up, but remains resilient during the consolidation phase of regional equity markets. We believe that such defensive, yet attractive characteristics, instituted by Vietnam equity market, would make it very attractive for institutional investors seeking for an 'alpha'. We maintain our optimism that Vietnam equity market could continue to outperform the regional markets going forward, supported by the following economic dynamics and investment catalysts:

Solid economic fundamentals. Vietnam continues to remain an attractive investment destination driven by its appealing credentials such as a young working population, political stability, a relatively low cost structure. The 'China plus one' policy continues to remain intact. Despite the challenging external trade environment, we believe that Vietnam is able to capture a market share in global tradable goods at the expense of higher-cost producers, which is a reflection of globalisation that has little correlation with the economic cycle. In fact, Vietnam was one of only two exporters to increase its first-quarter shipments to the U.S. market. Supported by its resilient domestic consumption and high stimulus package, we are optimistic that Vietnam will be one of the few Asian economies that continue to register strong GDP growth this year. Our GDP growth targets for Vietnam for 2009 and 2010 are 5.2% and 6.5% respectively.

Ongoing equitisation of State Owned Enterprises (SOEs) and sector liberalisation. The initial plan of the Government is to equitise all SOEs by 2010. Although the equitisation process has been disrupted by the meltdown of the global equity market, we believe that the Government will jumpstart and even fast-track the equitisation process once the market recovers. We continue to believe that the successful equitisation of these SOEs going forward could boost the market capitalisation of Vietnam equity market significantly and continue to serve as a strong catalyst to re-rate the market.

Ample domestic liquidity. Vietnam continues to be flushed with ample domestic liquidity in view of the wealth creation from its strong economic growth. Domestic liquidity continues to be trapped in the country due to the implementation of the currency control measure. Unlike China, some of this domestic liquidity has not been re-channelled out by domestic companies in the absence of sizeable overseas investments, in our opinion. It is hard to gauge the quantum of this domestic liquidity given that Vietnam's bank account penetration rate remains below 20%. Yet we know that it is a very substantial amount. In fact, we believe that the high domestic liquidity is the main reason why Vietnam has outperformed the regional markets consistently in the recent run-up. One meaningful way to gauge the domestic liquidity in Vietnam and its potential impact on the upside of the equity market is by comparing the expected GDP for 2009 over the total market cap of its equity market with those of the regions as illustrated below:

Figure 21: Expected 2009 GDP Over Market Capitalisation of the Exchanges



Source: Bloomberg, KEVS

Earnings stabilisation. The sharp decline in the corporate earnings in 2008 was mainly due to the impairment of the company's investment portfolio. In view of the recent upsurge in the market, we believe that the non-core investment losses that previously dragged down the company performance last year may turn to be a supporting factor to sustain the overall corporate earnings growth this year given the potential write back of investment losses. In fact, we do not discount the possibility that Vietnam may be one of the few countries that report strong positive earnings growth this year supported by non-core investment earnings. Some investors may argue that core earnings should be used as guidance for the overall earnings growth. We do acknowledge this concern but we also believe that non-core investment earnings will continue to influence the overall corporate earnings in the coming years and therefore do not serve as a one off exceptional gains that should be stripped out. Furthermore, many companies were penalised last year due to the enormous investment losses and we do not see a reason why we should not reward them when the companies yield investment gains. We should witness some positive earnings surprises in the upcoming second quarter reporting season.

Investibility to improve with the listing of domestic corporate giants. We also applaud the upcoming listings of the domestic corporate giants with market capitalisation exceeding USD1.0bn. Upon the listing of Bao Viet Insurance on the 25th of June, we expect more to join the party include Vietcombank and Vietinbank, Habeco, Sabeco and Mobifone. The imminent listings of these corporate giants may temporarily absorb some liquidity in the near term, but serve an important milestone to improve the investibility of the exchange, in our opinion.

Continued market liberalisation to improve market attractiveness. We observe that the market regulators have continued their market liberalisation process to improve the attractiveness of the Vietnam equity market. The State Securities Commission (SSC) has recently proposed that exchanges extend their trading duration by an additional 15 minutes in the morning. Other upcoming liberalisation measures that we gathered include: the improvement of exchange system to prepare for trading until the afternoon; the possibility of having more than one trading account; and potential implementation of the T+0 trading system to boost liquidity. Besides that, the SSC is also considering establishing a state fund to help stabilise the stock market and raising foreign ownership in banks to 35% from 30%.

Increased market transparency and corporate governance. The Vietnam equity market has remained under research despite rising foreign interest. We believe that the scarcity of quality research coverage on the listed and over-the-counter (OTC) companies may have restricted the participation of large foreign institutional funds in the past. Therefore, we expect foreign involvement in the market to increase going forward, with the rising investibility of the market due to increased investment research activities coupled with higher corporate governance.

Market is on an upward bias with new buying support. One issue that supports our optimism towards the Vietnam equity market is we gather that many large institutional investors do appreciate the potential offered by this exchange. Nonetheless, the relatively small market capitalisation has restricted them from participating in the market. Therefore, if the VN-Index surges higher to 600-700 levels where more listed companies are breaching their USD1.0bn mark, we could expect new inflows of funds to this market to participate in the rally given the increased market capitalisation. This is expected to support the upcycle of the equity market. Besides that, we believe that the market is also on an upward bias with the establishment of Vietnam-focused equity funds, the absence of short selling activities and the large investment holdings of many companies.

Anh Tom: Wow!! I now share your optimism of the market. In fact, I do have many friends including foreign institutional investors who appreciate the potential of Vietnam equity market and would like to invest in this market. Could I refer them to you?

Kim Eng Research: Absolutely, buddy. Kim Eng Vietnam Securities is always here to serve. As a dominant player in the region, we are confident that Kim Eng Vietnam Securities is able to provide professional and satisfactory services to our clients. Let us briefly explain to you some of our key credentials:

Leading securities firm in the region. Kim Eng Group is a leading securities firm in the region. We are ranked number one in countries like Thailand, Indonesia and Philippines in terms of market share. We are also one of the top two securities firms in Singapore. Although Kim Eng Securities Vietnam officially started its operations only in April 2008, we are now the number eight securities firm in Vietnam with a market share exceeding 3.5%.

Figure 22: Extensive Regional Coverage

Thailand (Listed)

- Kim Eng Thailand, No. 1 broker in Thailand since 2002 with market share of approx. 7.8%
- 40 branches, 837 employees

Singapore (Listed)

- Kim Eng Securities, No. 2 broker in Singapore with market share of approx. 10.7%
- 2 branches, 620 employees*

Philippines (Listed)

- ATR-Kim Eng Securities, No.1 domestic broker, No.4 broker with market share of approx. 7.7%
- 4 branches, 249 employees

Indonesia

- PT Kim Eng Indonesia, No. 1 broker in Indonesia with market share of approx. 7.1%
- 4 branches, 166 employees*

Hong Kong

- Kim Eng Securities Hongkong
- 1 branch, 121 employees

London

- Kim Eng London

New York

- Kim Eng New York

Vietnam

- Kim Eng Vietnam Securities (member of both Hochiminh city Stock Exchange and Hanoi Stock Exchange)

India

- Kim Eng Securities India (member of BSE)

Malaysia

- Kim Eng Malaysia (Research)

Source: KEVS

Provision of full range of securities services by qualified professionals. We provide a full range of securities services including securities brokerage, corporate finance, investment research, custodian services. Our colleagues are highly qualified and are trained on a continuous basis by experts from Kim Eng Group who have strong brokerage experience in Singapore and other international securities markets. We also have expatriates from Japan, Singapore, Thailand and Malaysia with an in-depth knowledge of the regional securities markets.

State of art technology. We are proud of our state-of-the-art information technologies that have been test-proven in many regional exchanges. Besides that, we also offer a speedy and sophisticated online trading system to allow investors to trade everywhere, with up-to-date trading information and results.

Highly-qualified brokerage, corporate finance and investment research teams. Kim Eng Vietnam Securities have developed a strong brokerage team to best serve our clients. We have Chinese, English, Japanese and Vietnamese speaking brokers to cater to our diversified client base. All trade related information including the direct transactions is kept private and confidential. We have also built a highly qualified corporate finance team that engages in many sizeable mandates as illustrated below. Our investment research team also strives to offer high quality research products to help our clients to make informed investment decisions. Besides that, we have no proprietary trading position given that our objective is to best serve our clients.

Figure 23 : Sizeable Mandates Secured

Phu My Construction 2007 Advisory for business evaluation and capital raising	**Full Power VietNam 2008** Advisory for Bond Issuing of Full Power Corporation	**Dat Viet Holdings 2008** Advisory for business restructuring and strategic partner sourcing	**Duc Long Gia Lai Group 2008** Advisory for business restructuring and strategic partner sourcing, listing	**Tong Cong Ty Bia-Ruou-Nuoc Giai Khat Saigon 2008** Advisory for strategic partner sourcing
My Xuyen Bank 2008 Advisory for capital raising	**Kim Vi Stainless Steel 2008** Advisory for corporate restructuring	**Vina Acecook 2008** Advisory for corporate Valuation	**Go Dang Seafood Co 2008** Advisory for strategic partner sourcing and listing in Hose	

Source: KEVS

Extensive network and strong financial position of Kim Eng Group. One of the advantages of being a client of Kim Eng Securities Vietnam is that we have an extensive network around the region that could assist the clients to perform cross-border investments and also raise funds abroad. Furthermore, we are also able to assist our clients in conducting leverage distress asset buyouts given the strong financial position of Kim Eng Group.

Anh Tom: Thanks for briefing me about your company's credentials. I have always been impressed by the highly qualified and professional services offered by Kim Eng Vietnam Securities. I am sure that my friends are happy to collaborate with you. Given your optimism of the global and Vietnam equity market, what do you think could go wrong?

Kim Eng Research: Given the continued high global uncertainties, we do see that there are risks that could derail our optimism of the global economic recovery and market outlook. The major risks are outlined below:

Trade war and swine flu. We believe that the two major external risks that could disrupt the global recovery are outright trade wars among the trading nations and uncontainable swine flu pandemic. The occurrence of one of these events will slow down economic activities dramatically. Nonetheless, we believe that a serious trade war is unlikely to happen given the painful lesson from the 1930s Great Depression. Although the World Health Organisation (WHO) has declared swine flu as a global pandemic, we have seen that the H1N1 flu has not spread uncontrollably and evolved to a more lethal form of influenza. We hold that the swine flu pandemic will remain well-contained going forward.

Depression in U.S. and/or EU economies. Although there are some 'green shoots' in the U.S. and many are hoping for a 'V'-shaped recovery, we believe that the U.S. economy is not out of the woods yet. U.S. economic data continue to show signs of bottoming, but we have not witnessed a full-swing upturn. The EU economy continues to be in a bad shape with no recovery insight. In fact, some economists are fearful that the prolonged slowdown in the EU economy may upset the global economic recovery. Meanwhile, Mr. Dominique Strauss-Kahn, managing director of the IMF, has recently warned that the worst of the global recession may still yet come.

Fluctuations of commodity prices. Oil price has more than doubled from its trough of USD33/barrel this year. We expect the core CPI measure that excludes volatile food and energy prices to remain low in the near term given the continued global deflationary pressure. Nevertheless, we are concerned that the spike-up in commodity prices could heighten the overall inflation picture going forward. It is an open secret that commodity prices, particularly the oil price, are driven by speculative activities, rather than fundamental issues. Therefore, the direction of oil price remains a wild card that could significantly influence the global recovery.

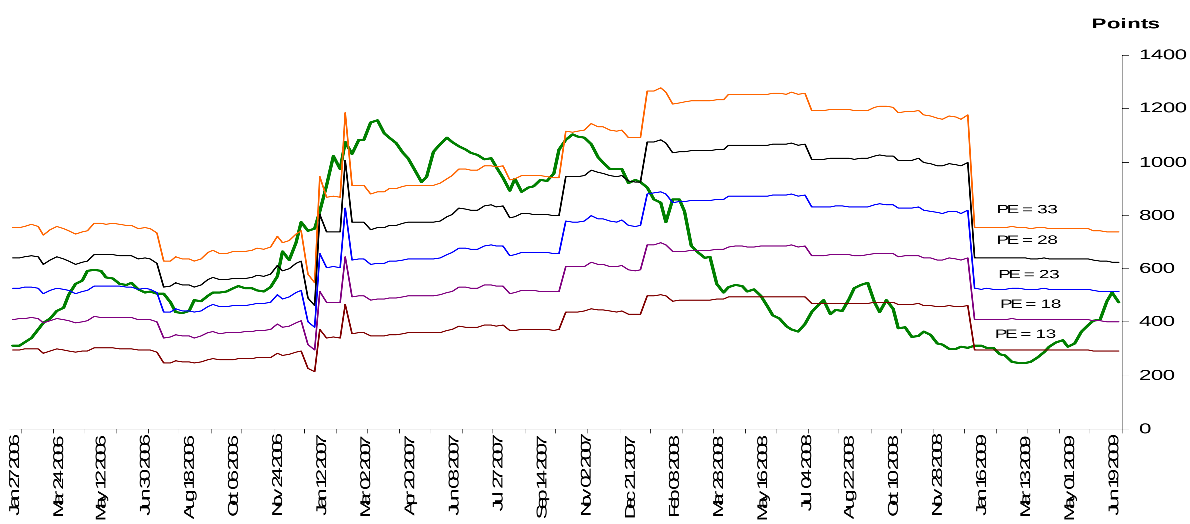
Dollar crisis. Any events that accelerate the divestment of U.S. asset holdings could trigger a dollar crisis. Nonetheless, we would rate this potential outcome as highly unlikely. If foreign investors are no longer prepared to finance the U.S. deficit, there will be a catastrophic plunge in U.S. demand, a dollar crisis and a collapse in the U.S. asset prices. This could lead to a prolonged global depression that we believe that no investors will want to occur.

Anh Tom: So what is your year-end target for the VN-Index?

Kim Eng Research: Buddy**,** you have just asked a very difficult question that most analysts would wish to avoid if given a choice…. (laughing). To be honest, the odds of correctly guesstimating a yearend target for the VN-Index are similar to striking a jackpot for many. This is because you have to get both the figure and the timing right, quite a demanding task (grin). In fact, the estimation of the VN-Index for this year-end is particularly challenging given the volatility of the market and the heightened global uncertainties. Nonetheless, we will try our best to provide you with a reasonable prediction.

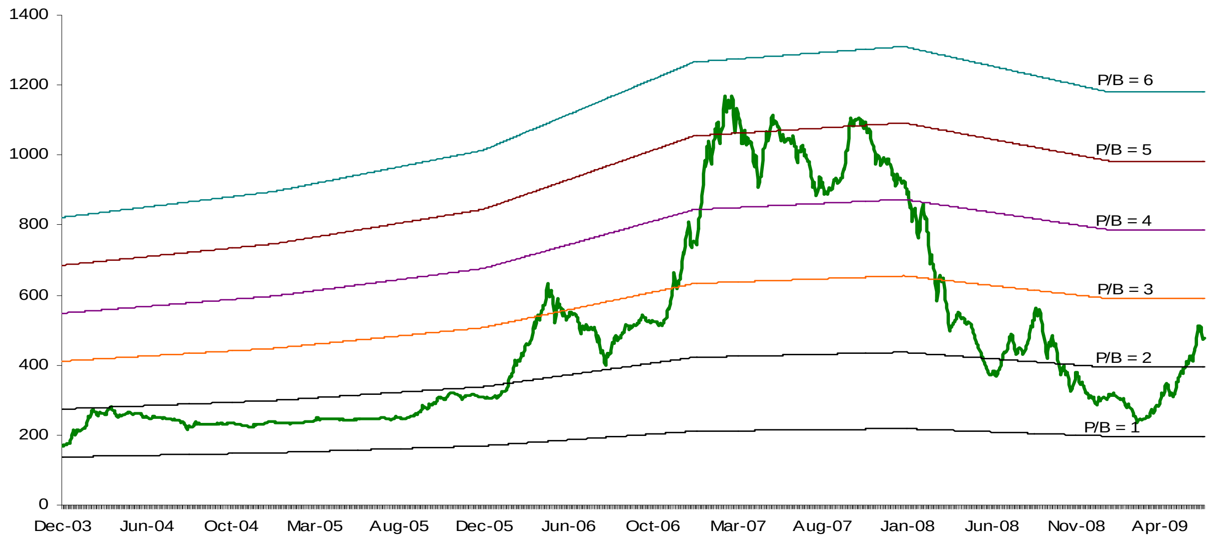
As mentioned before, we observe that the valuation of the VN-Index has remained reasonable compared to the regional indices, notwithstanding its recent explosive run up. Given the cloudy earnings outlook and the impact of non core-earnings on the overall earnings prospect of Vietnam's companies, we prefer to use the P/B valuation than a P/E ratio to measure the intrinsic value of the VN-Index. Our year-end target for the VN-Index is **550 points,** pegged at an expected P/B ratio of 2.7x, which comes at the lower end of its historical valuation metrics. We believe that this target is reasonable compared to that of the region. Our year-end target has also implied a forward PER of 22.4x assuming a conservative earnings growth rate of 10%. Over the longer term, we are optimistic that the VN-Index could breach 1,000 points by 2011 should market developments pan out in accordance with our expectations.

Figure 24: The P/E Band of The VN-index



Source: Bloomberg, KEVS

Figure 25: The P/B Band of The VN-Index



Source: Bloomberg, KEVS

Figure 26: Valuations of The Regional Indices

Major indices	Country	Expected PER	Historical PER	Expected Dividend Yield	P/B	P/CF
VN Index	Vietnam	18.5	20.4	1.8	2.2	12.9
Kuala Lumpur Comp Index	Malaysia	16.1	18.5	3.6	1.6	13.0
Jakarta Comp Index	Indonesia	20.1	23.3	2.1	2.3	9.6
Philippine SE Index	Philippine	12.1	14.6	4.0	1.8	6.2
Hang Seng Index	Hong Kong	16.4	16.3	3.2	1.8	8.2
Straits Times Index	Singapore	15.7	12.1	3.5	1.4	8.1
KOSPI Index	Korea	13.9	29.6	1.6	1.1	N/A
Taiwan Taiex Index	Taiwan	25.8	60.7	3.2	1.6	8.3
Shanghai Comp Index	China	22.1	29.5	1.5	3.2	8.5
Shenzen Comp Index	China	27.5	7.2	0.8	3.8	30.5
Bombay Sensex Index	India	15.0	15.5	1.4	2.7	14.8

Source: Bloomberg, KEVS

We wish to highlight that we are favourable on the outlook of Vietnam equity market based on a relative basis, rather than on an absolute basis. We believe that the VN-Index will outperform relative to the regional indices, but this does not mean that it could yield an absolute positive return should the regional market collapsed.

Anh Tom: Given that we have ample domestic liquidity and many investment themes to offer, why do you not overweight Vietnam market on an absolute basis, instead of the relative basis?

Kim Eng Research: We understand where you are coming from. Although we remain optimistic about the prospect of the Vietnam equity market, we believe that the domestic equity market will remain resilient, but not be decoupled from external uncertainties, particularly the performance of U.S. equity market.

In fact, we expect the correlation of the U.S. equity market with the global equity market to increase going forward. This is because the U.S. equity market is struggling to price in whether there is a prolonged recession or a recovery in the U.S. Although the rate of decline in the U.S. economy has subsided, it remains difficult to judge whether the U.S. economy would embark on the path to full recovery, in our opinion. Should the U.S. go into a depression, it would trigger a global economic slowdown and Vietnam would not be spared.

Anh Tom: But I do see that the recent direction of the Vietnam equity market does not really follow the overnight performance of the U.S. equity market….In fact, nowadays we do not look for foreign buying or selling activities to decide our investment decision. Don't you think that it is trying to tell you something?

Kim Eng Research: To answer your question, let me give you an example. As an active investor in Vietnam, what would you do when the Dow dropped by 400 points overnight or 100 points a day for four consecutive days?

Anh Tom: Let me think…….In the former scenario, I will immediately run for cover (grin)……..In the latter case, I may continue to support the market on the first and the second day since I did witness the U.S. equity market experience a minor pull back before resuming its upward trend in the recent rally. Nonetheless, I would look for an exit if the Dow continues to drop for the third and fourth day.

Kim Eng Research: That is precisely what I am referring to! Although the Vietnam market is awashed with ample of domestic liquidity, many domestic investors are traders in nature and only a few individuals are convicted long only investors. Therefore, the perceived resiliency of the market will disappear once the U.S. market enters a lengthy consolidation phase. Besides that, investing in Vietnam also exposes you to the following country-specific risks:

Financing budget deficit is a major constraint. With the massive stimulus package to pump prime the domestic economy, the Government has estimated that its budget deficit will rise to around 7.0% of GDP this year from last year's 5.0%. However, we observe that the financing for the deficit is proving to be difficult to obtain given the ongoing liquidity crunch, the unattractive yields and the perceived depreciating VND. The Government has failed to auction the full amount of Treasury bonds in the last few months. The continued failure of bond auctions may constrain the Government's ability to implement its fiscal stimulus.

Potentially high inflation. Contrary to the early economic growth of China, Vietnam's economic growth has been tempered by a high inflation rate. We expect the inflation rate to stay at a comfortable level of 7.0% this year. Nonetheless, a higher-than-expected inflation rate could lead to an early tightening of economic policies that could again disrupt the growth story of Vietnam.

High deposit rates may cause outflows of funds from equity market. Experience in the past has shown us that domestic liquidity normally switches between different asset classes ranging from equity, gold and property to bank deposits. With some banks raising their long-term deposit rates to more than 10%, we foresee that some funds may move out from the equity market to the deposits. Therefore, the upside potential of the VN-Index could be restricted if this trend continues.

Weakening VND. Despite the gradual decline of the U.S. dollar, the VND is expected to continue depreciating against the greenbacks at least for this year. This may not be attractive for investors who engage in carry trade given the negative currency return. Nonetheless, we wish to advise investors to look for the expected generous asset yields to be offered by Vietnam equity market rather than focusing solely on the negative currency return.

Potential policy missteps. An unexpected change in the Government's policies includes a deceleration in the liberalisation process, a premature tightening of monetary polices or the imposition of regulations to cool down the equity market such as capital control policy, which could potentially cap the upside of the market going forward.

Anh Tom: *So what are your stock picks for 2009?*

Kim Eng Research: In accordance with our main investment theme, **'The Formation of a Super Bull Cycle'**, we continue to remain optimistic about the longer-term perspective of the VN-Index, despite its current consolidation phase. We believe that big caps will remain the major beneficiaries of the upcycle of the equity market in view of their appeal to both retail and institutional investors in terms of investibility and tradability. We have selected five stocks in our 'Stocks to Watch' section, which we believe will continue to outperform the general market in view of their solid fundamentals and riding on strong investment themes.

Anh Tom: *Thank you so much for enlightening me about the outlook in 2009. I am now more informed about the future development of the market. Greatly appreciate your time and efforts.*

Kim Eng Research: You are most welcome. I hereby enclose our sector outlook and stocks to watch for 2009. Happy investing!!

SECTOR REVIEW

KIM ENG

Banking sector

Competition Has Intensified

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VIETNAM

Credit expanding, but accompanied with quality risks
Credit grew at an annual rate of 53.8% in 2007 before shrinking to 20.4% in 2008 due to the tightening of monetary policy and global financial turbulence. In the first two months of 2009, domestic banking lending continued to remain low with credit growth of only 0.5%. Nonetheless, lending growth has started to escalate since March under the Government's stimulus programme mainly through credit subsidies. The data released in May raised concerns about the potential asset bubble and NPL risks as credit growth surged by 14.9% on a year-to-date basis, compared to 2.6% during the first three months of 2009. We may see loan growth exceeding the SBV's projection of 25% this year given this recent surge.

Deposits grow at a slower pace, but cost of fund keeps rising
In line with the credit expansion, deposits have also inched up, but at a slower pace. This is likely to be caused by the switching of domestic funds to the recently revived real estates market and the remarkable rally in the equity market compared to the low deposit rates. Banks increased their deposit interest rates from the prevailing rate of 6.9% in January to 8.8% in May to compete with the attractive yields offered by these asset classes. Recently, we gather that some banks have even increased their deposit rates to more than 10.0%. We observe that although the deposit rates are on an upward trend, current bank lending interest rates have come down marginally. This is expected to reduce the banks' interests spread and subsequently the net interest margin of banks going forward.

Rising competitions from foreign banks
Last year, five foreign banks were granted licenses from the State Bank of Vietnam (SBV) to set up wholly foreign-owned banks in Vietnam as a result of Vietnam's WTO commitment to liberalise its financial sector. For the first time, foreign bankers who constitute less than 10% of the total banking assets can compete on a level playing field with the domestic banks. We expect this to pose competitive challenges to domestic banks in the longer term, although we do not foresee any major near-term threats.

Consolidation to happen given WTO entry requirements
The WTO entry requirement relating to a minimum level of banking capital may lead to consolidation in the sector. Last year, nine small banks were exposed to potential closure risk given that their chartered capital was less than VND 1.0tn. These banks had since raised sufficient capital to stay in the game. We gather that, by the end of this year, there will be around 21 banks that will be required to raise their capital to VND 2.0tn and all banks have to reach the minimum required capital of VND 3.0tn by the end of 2010.

Potential share dilution with intensified equity rising
We believe that shareholders of some domestic banks may suffer from a massive share dilution in the coming years as more than 50.0% of domestic banks need to raise capital to strengthen their respective capital ratio. Not only will the undercapitalised banks be required to raise capital to VND 3.0tn by the end of 2010, but some stated-owned banks with capital well above the required level may also face the same challenge to pass the 8.0% CAR hurdle by 2010.

Strong growth potential bolstered by low market penetration rate
Despite the upcoming threats of foreign competition and massive share dilution, we remain optimistic about the prospect of the domestic banking sector boosted by the resilient GDP growth and the relatively low market penetration rate. The number of bank accounts in Vietnam remained below 20.0% of the population. Furthermore, the financial product offerings in Vietnam continue to remain limited and we expect enormous potential for the banks to increase its non-interest income. We believe that Asia **Commercial Bank (ACB) and Sacombank (STB)** provide good exposure to the domestic banking sector.

KIM ENG

Brewery Sector

Potential risks from the tightening of regulation

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Rising disposable income per capita
During the 2001-2008 period, Vietnam's economy has experienced a high average annual GDP growth rate of 7.6%. This has improved personal disposable income substantially and indirectly boosted alcohol consumption rate. According to the Vietnam Alcohol, Beer and Beverage Association, the per capita consumption rate is expected to increase from the current level of 18 litres to 28 litres by 2010. On the other hand, Business Monitor International (BMI) estimates that beer sales would increase by 1.0bn litres from 1.9bn litres in 2008 to 2.9bn litres in 2013, representing a high CAGR of 7.7% during the period.

Drinking culture
In Vietnam, it is popular for working people to go the pubs after working hours to socialise or to conduct business meetings. It is an acceptable cultural practice for many Vietnamese people to consume beers for leisure given the lack of other entertainment activities.

Lax regulations on drinking
Vietnam has not imposed an age limit for purchasing and consuming alcohol drinks. Therefore, consumers are allowed to purchase beers in a convenience shop or mall regardless of his/her age. Besides that, the country has not imposed any age limit for entering bars or clubs. Recently, there are high accident rates caused by drink driving. This has resulted in the implementation of a new transportation safety law with effect from the 1st of July 2009. According to the new law, a car driver who consumes alcohol exceeding the permitted limit while driving will be fined VND 1.0-3.0mn (USD 55-165) and have his/her driving license suspended for two months. DWI motorcycle drivers would be charged VND 400-800k (USD 22-44) and have their license suspended for two months. However, these penalties are considered not severe enough to prevent people from engaging in drinking driving activities.

Bill on special consumption tax
A bill on special consumption tax is currently under discussion and is proposed to take effect from the 1st of January 2010. According to the current available draft, wine and spirits exceeding 20.0% of alcohol content will be subject to a tax rate of 55.0%; wine with alcohol content below 20.0% will be imposed a tax rate of 20.0%, while beer will be levied a blanket tax rate of 50.0%.

Privatisation in progress
The equitisation of Sabeco and Habeco, the two state-owned brewery giants, were among the most noticeable events in the brewery industry last year. In the domestic brewery market, Sabeco and Habeco make up 34% and 19% of the market share, respectively. Sabeco is the market leader in the South, while Habeco dominates the northern region. Despite the increased competition of international brands such as Heineken, Tiger, Carlsberg, Sabeco and Habeco have continued to dominate the domestic market given the price sensitivity of the Vietnamese consumer. Their popular brands that include Sabeco's Saigon Beer and Triple Three, and Habeco's Halida have become the mainstream beers in the market. However, we observe that there are rising trend towards the consumption of more premium brands dominated by foreign players with the increase in personal disposable income. We expect the two domestic brewery giants to face intensified competition over the next few years with consumers gradually switching to the premium brands.

VIETNAM

Defensive sector with growing consumption
In the nutshell, the outlook of brewery sector remains positive owing to the rising disposable personal income and the popular drinking culture in Vietnam. In addition, we believe that the lax regulations will continue to support the sector's growth. **Sabeco** and **Habeco** both offer good exposure to investors who are interested in this sector.

KIM ENG

Confectionery Sector

Benefiting from Rising Consumption

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Favourable underlying fundamentals to drive the confectionery sector
The living standard in Vietnam is improving with the rise in personal disposal income. In addition, we observe that there is increased popularity in consumption of confectionary products due to the influence of the western culture. These favourable dynamics are expected to continue to support the growth of the confectionery sector.

Strong growth rate expectation
According to Business Monitor International (BMI), Vietnam's confectionery industry is expected to grow at a compound annual growth rate of 15.1% from 2008 to 2013. Annual confectionery sales are expected to increase from USD 287.8mn in 2008 to USD 581.3mn in 2013, riding on an increase in personal disposal income and changing consumption habits driven by rapid urbanisation.

Domestic producers to dominate the market…
Local producers have currently supplied up to 70% of domestic demand, and have continuously improved product quality and diversification. Leading confectionery makers are Kinh Do (including North Kinh Do), followed by Hai Ha. To meet increasing and more sophisticated consumer demand, and to cope with increasing competitive business environment, leading producers have aggressively expanded their production.

….but competition from foreign players has intensified
The market has become more competitive upon Vietnam's accession to WTO. Although this will benefit Vietnamese confectionery exporters, the gradual tariff cut as per the WTO agreement will reduce the barrier to entry, which we believe will intensify competition in the domestic market. Furthermore, we observe that an increased number of foreign confectionery giants have entered the domestic market. Some have acquired a stake in domestic confectionary producers to leverage on their domestic market experience and existing distribution network. For instance, we have witnessed Lotte's acquisition of a stake in Bibica and Kinh Do's establishment of a strategic partnership with Cadbury Schweppes. On the domestic front, we also observe that merger and acquisition activities among the domestic players have intensified in order to strengthen their market position.

Exposed to external risks due to the volatility of commodities prices
Domestic confectionery companies typically source part of their raw input from overseas. Therefore, the volatility of the global commodity prices could have a significant impact on their bottom line. On the other hand, we believe that foreign confectionery producers would have a competitive advantage in terms of pricing strategy and product offerings given their economies of scale and efficiency in sourcing raw inputs regionally.

High potential despite near-term threat
We continue to remain positive about the sector's prospect, due to the growing population, rising personal disposal income and increasing popularity of confectionery products. Although we expect the competition in the sector to intensify going forward, we believe that the pie remains large enough to be shared between domestic and foreign confectionery producers. We believe that **Kinh Do Corporation (KDC)** offers good exposure to the confectionery sector.

KIM ENG

Construction Sector

Supported by the Massive Stimulus Package

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Megaprojects to jump start the Vietnam's economic growth
Amid the global crisis and increased external uncertainties, the Government in Vietnam has rolled out massive stimulus packages including multibillion mega projects to jump-start economic growth. We believe that these sizeable projects also represent the Government's desire to diversify the growth structure of the economy in order to make it more domestically-driven and less heavily-dependent on exports. Supported by increased government expenditure and a loosening credit market, the construction sector has grown by 6.9% in 1Q09. This has contributed considerably to the country's 3.1% GDP growth in 1Q09.

Ensuring quality infrastructure development in the urban areas
The Government has approved an Urban Development Master Plan till 2050. Based on the development blueprint, the number of cities in Vietnam is expected to grow from the current level of 740 to 870 by 2015, and 1,000 by 2025. The master plan emphasises the importance of infrastructure development to sustain the country's economic growth. We believe that it provides an indication of the exciting long-term prospect of the domestic construction sector. In addition, the Government is committed to implement a social housing programme lasting from 2009 to 2015 to protect the welfare of the low-to-medium income group. This housing programme involves the construction of affordable houses for students, workers in the industrial zones and low-income earners in the urban areas. The related legal frameworks were issued and the Government has provided various incentives to induce investors to participate. The programme forms part of the Government's stimulus package to boost domestic economic growth.

Substantial FDI influx into the property sector
Vietnam's accession to the WTO has attracted a massive influx of foreign direct investment (FDI) into the country. We gather that a substantial amount of FDI has flowed into the property sector. In 2008 alone, the total investment in this sector amounted to USD 23.6bn, constituting 36.8% of the total FDI. For the first four months of 2009, around 91.0% of total registered FDI (USD 6.4bn) was for property-related projects. This includes USD 4.5bn in hotel construction projects, USD 600.0mn in residential property projects and USD 684.0mn in office building projects. This shows continued high foreign interest in the domestic property sector, despite the ongoing global crisis. Construction sector will prosper when there are more investments in property market.

Legal framework improvements
The existing legal framework for capital construction remains bureaucratic and ambiguous. We believe that this is one of the factors hindering the sector's development. The Government has acknowledged these shortfalls and proposed to the National Assembly to revise some of the existing legal framework in order to accelerate the development of the sector. The proposed amendments are expected to reduce administrative paperwork and shorten the processing phase.

VIETNAM

Brighter sector prospects with lower building material costs and easy credits

The contractionary economic policies implemented by Vietnam Government in 2008, coupled with the ongoing global economic slowdown, have lowered the prices of building materials. The substantial decline of building material costs from their 2008 peaks has provided construction firms and property developers with more incentives to commence construction projects, or resume the ongoing property projects that were delayed last year due to the high material costs. Besides that, we observe that the credit market has been easing given the lower lending rates and the subsidised loan programme. We are positive that the favourable conditions outlined above would drive the growth of the sector going forward. Construction players that provide good exposure to the construction sector are **Vietnam Construction Import-Export JSC (VCG), LICOGI 16 JSC (LCG), Song Da 7 (SD7), and Song Da 9 (SD9).**

KIM ENG

Dairy Sector

A Defensive yet Attractive Sector

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Rising demand for dairy products
We expect improved living standards and rising health awareness to encourage the consumption of dairy products going forward. Per capita milk consumption in Vietnam has increased from 3.8kg in 2001 to 9kg in 2007. It is expected to rise further to 12kg in 2010 and 20kg in 2020. Vietnam's milk consumption remains considerably lower than regional countries, such as Thailand and Singapore with per capita milk consumption of 25kg and 33kg, respectively. Among the diary products, we expect powdered milk and fresh milk segments to experience the highest growth.

Highly competitive industry
Domestic dairy manufacturers have faced intensified competition from foreign players such as Dutch Lady, Abbott, Meat Johnson and Nestlé. Vietnamese consumers, particularly young and affluent people, prefer the popular brands that are aggressively advertised in Vietnam. Vinamilk remains the top player in the overall diary market with 37.0% of the market share, followed closely by Dutch Lady with 35.0%.

Shortage of fresh milk supply in Vietnam hightens external risks
At the end of 2008, Vietnam had 105,980 milk cows, supplying less than 20% of the raw fresh milk for domestic production. Vinamilk that is the largest fresh milk purchaser in the country continues to rely heavily on imported milk powder for its production. In fact, around 75.0% of Vinamilk's milk inputs were imported from overseas. Vietnam has set an ambitious target to develop the herd of milk cows to meet around 40.0% of its domestic demand by 2010 to reduce its over-dependence on external supply.

Import taxes on milk material
Vietnam slashed import taxes from 40.0% to between 3.0%-7.0% in Oct 2007 in order to cool down rising milk prices. However, the Government has increased the taxes on imported milk material by 3.0%-13.0% to a maximum rate of 20.0% in March 2009 to protect the dairy cow farming industry. The rise of imported tax continues to fall below the 25.0% tax rate, the rate that Vietnam has committed to adhere to, with its membership in the WTO.

Highest average milk price in the world
According to a recent report published by the Information Centre for Agriculture and Rural Development Ministry (Agroinfo), the average milk price in Vietnam was USD 0.82/kg compared to USD 0.40/kg in Eastern European and South American countries, and USD 0.80/kg in China and Oceania region. Although the global input price of milk powder dropped significantly since the later part of 2008, the domestic retail price of milk products continues to rise without showing any signs of decrease.

A defensive sector with strong growth potential

In Vietnam, the retail price of milk products is high, while the current cost of milk input has dropped substantially. This is expected to widen the profit margins of the dairy manufacturers. We expect the growing population and changing consumption habit stemming from the rapid urbanisation to stimulate the demand for dairy products. Given the low consumption per capita rate, the dairy sector offers enormous growth potential in the future. Our top sector pick is **Vietnam Dairy Products Joint Stock Company (VNM)** due to its strong financial position and its dominant position in Vietnam dairy market.

KIM ENG

Fertiliser Sector

Cyclical Low With Strong Upside Potential

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Insufficient domestic fertiliser production…..
Domestic fertiliser production was 5.4mn tonnes in 2008, fulfilling only 64.3% of the aggregated demand. Around 75.0% of the demand for NPK and 53.0% of the demand for urea were met by domestic production. For the other types of fertiliser such as SA, DAP and Potassium, Vietnam had to import 100.0%.

…..leads to heavy reliance on imports
According to Vietnam's General Department of Customs, the import volume of fertiliser was 3.0mn tonnes in 2008, representing a 20.0% decline on a y-o-y basis. However, the average imported price surged by 84.0% in 2008 compared to the previous year. Therefore, the total imported value of fertiliser increased by 47.3% y-o-y last year to reach USD1.5mn. China remained the largest fertiliser exporter to Vietnam capturing around 50.0% of the import volume.

Highly volatile fertiliser prices
Fertiliser prices in both domestic and global markets increased significantly in the first eight months of 2008 before slumping in the remaining months last year in line with the movement of oil prices. Some companies suffered heavy losses last year due to the price fluctuation. The domestic price rose again in the first quarter of 2009 and is expected to increase further as domestic fertiliser manufacturers gradually pass on the rising coal price to its customer.

Increased urea supply with new plants coming on stream in 2012
New urea plants are expected to come on-stream by 2012. The completion of these plants would add 1.4mn tonnes of production capacity to the sector's total output. These new production capacities include 0.8mn tonnes from Ca Mau fertiliser plant, 0.6mn tonnes from Ninh Binh fertiliser plant and 0.1mn tonnes from Phu My fertiliser's expanded plant. With the upcoming production capacity, the supply of urea is expected to exceed its demand and the country could be exporting about half a million tonne of urea abroad. However, we expect Vietnamese fertiliser manufacturers to face tough competition from China given their dominance in the global market.

Near term sector prospect remains bright
We continue to be optimistic about the near term outlook of the sector given the shortage of supply prior to 2012. The total demand for fertiliser is estimated at 7.8mn tonnes for 2009 and domestic production is expected to meet 65.0% of them. Nonetheless, we acknowledge that the direction of the urea price is highly susceptible to external factors and largely dependent on the global urea prices. **Phu My Fertiliser (DPM**) offers a good proxy for exposure to this sector.

KIM ENG

Insurance sector

Strong Growth Potential

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Compelling growth potential

Although the global economic turmoil adversely affected the insurance sector in 2008, total premiums continued to enjoy an impressive growth rate of 17.9% on a y-o-y basis to VND 27,968bn (USD1,645 mn). Non-life premiums rose by 27.7% y-o-y to VND 10,855bn (USD 638mn) while life premiums increased by 8.8% to VND 10,339bn (USD 608mn). For the 2009-2010 period, the Ministry of Finance (MOF) expects insurance premium to grow between 12.0% and 13.0%. Particularly, non-life insurance is expected increase by 15.0%-18.0% while life insurance would rise by 8.0%-10.0%. Although we deem this expectation to be fairly aggressive, the growth potential remains hefty with support from MOF and signs of economic recovery.

Sector liberalisation intensified the competitions

Under the WTO framework, foreign insurers are permitted to open branches in Vietnam and to offer non-life insurance services from November 2011. Besides that, domestic insurers are gradually losing their advantage as the sole compulsory insurance providers. Foreign insurers have been allowed to offer the same kind of services in Vietnam since last year. The liberalisation of the insurance sector, which induces more intense competition yet better market access, will make Vietnam's insurance sector more efficient and competitive regionally.

Low market penetration and density

Owing to the high growth rates of Vietnam's economy in the previous years, high inflows of FDIs and participation of foreign insurers, the insurance sector has grown impressively at a CAGR of 25.5% during the 1993-2008 period. Nevertheless, we acknowledge that the high growth rates in both life and non-life segments came from a very small base. Insurance penetration that is measured by gross premium as a percentage of GDP increased significantly from 0.5% in 1993 to 1.4% in 2008. Similarly, insurance density that is gauged by the gross premium per capita surged from USD0.6 in 1993 to USD15.5 in 2008. However, these rates were significantly lower than those of the regional countries. This implies a potentially lucrative market with high growth potential.

Concentrated investment portfolios

Fewer domestic insurers have been able to earn profits from their core business due to increased compensation charges and fierce competition. Therefore, investment income has become their major source of income. Nevertheless, investment portfolios of domestic insurance companies are not diversified given the law restrictions. Up to 60.0% of the investments are in bonds, 22% in bank deposits and the remaining in equity, real estate and others. Although the large investment holdings in bonds and bank deposits are deemed safe and stable during the period of turmoil, it brings a low profit margin for insurers should the equity market recover.

Undercapitalised domestic insurers

Vietnam's insurance sector has expanded rapidly from one state-owned insurance company to the present 49 companies. Nevertheless, most insurance companies are small and undercapitalised. Since March 2007, the Ministry of Finance has required insurers to raise their chartered capital. Non-life insurers must have at least VND300.0bn (USD17.6mn) in legal capital from the previous level of VND70.0bn (USD4.1mn). Life insurers need to raise capital to VND600.0bn (USD35.3mn) from VND140.0bn (USD8.2mn) and brokerage insurers must have VND4.0bn (USD0.2mn). Currently, half of insurance companies do not meet this requirement. However, the timeline to implement this decree remains open in view of the current economic turmoil. We believe that **Petrovietnam Insurance JSC (PVI)** provides good exposure to the insurance sector.

KIM ENG

Oil and gas sector

Outlook Remains Robust

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High volatility of global oil price
The movement of global oil price has been highly volatile in the recent years. Upon reaching its peak of USD 147.00 per barrel, the oil price plunged by 77.6% within six months to a five-year-low of around USD 33.00 per barrel. However, oil price has then climbed to around USD 70.00 per barrel since June 2009.

Tumbling in world oil demand ahead
According to OPEC's monthly reports, the forecast for the world oil demand growth in 2009 has been continuously revised down: by -0.6mb/d in Feb to -1.0mb/d in Mar, -1.4mb/d in April, and -1.6mb/d in May 2009, given the ongoing global crisis.

Export revenue remains high despite economic turbulence
PetroVietnam (PVN), the monopoly in Vietnam's oil and gas industry, secured 62 oil and gas contracts as of 2008. With five new discoveries in 2008, the country's oil and gas reserve has increased by 127.0mn tonnes. PVN recorded a production output of 15.0mn tonnes of crude oil and 7.5bn cubic metres of gas in 2008, despite the economic turbulence. In 2008, Vietnam exported 13.8mn tonnes of crude oil with a total value of USD 10.4bn. Although the export volume declined by 8.7% on a y-o-y basis, the export value increased significantly by 21.9% y-o-y, thanks to the soaring global oil price in the first half of 2008.

Becoming net importer
With the oil export value of USD10.4bn and refined oil import value of USD13.0bn, Vietnam has turned from being a net exporter in the past few years to becoming a net importer in 2008. The demand for domestic refined oil is expected to grow by 8.0% between 2008 and 2010, while the compound annual growth rate (CAGR) of the oil production for the past ten years has been only 4.0%. Vietnam will need at least 6.5bn tonnes of crude oil per year when Dung Quat, the first refinery in Vietnam that came on-stream in April 2009, becomes fully operational in 2010. Domestic crude oil demand is expected to increase further by 18.4mn tonnes per year when two other refineries, Nghi Son refinery and Refinery No.3 in Long Son, come on-stream in 2013 and 2014, respectively. As such, Vietnam may need to start importing crude oil in the next few years.

Expanding upstream and downstream activities
According to PVN's plan, the Group is investing USD19.0bn between 2009 and 2015 to expand its downstream activities. Besides that, PVN is aggressively seeking for both onshore and offshore E&P projects. At present, the Group has secured 20 E&P projects overseas with other oil giants. The Group's expansions into both upstream and downstream activities are expected to increase the demand for oil rigs and petroleum technical services.

Gas consumption to rise
In 2008, PVN supplied around 7.0bn cubic metres of gas, 70,000 tonnes of condensate and 260,000 tonnes of LPG to chemical, fertiliser, power production and transportation. However, the current domestic production can only supply to power plants and fertiliser plants, rather than cater to residential use due to the supply constraints. The domestic demand for gas is expected to grow by 10.0% annually in both industrial and residential sectors. Improving living standards, booming construction projects, new fertiliser and power plants will be the key drivers to boost consumption of gas and LPG.

VIETNAM

Bright prospects

Although both OPEC and IEA forecasted that the world oil demand will come down in the near term, we remain positive on the longer-term potential of Vietnam's oil and gas industry. We believe that **PetroVietnam Drilling and Well Services Corporation (PVD)** provides good exposure to the domestic oil and gas play.

KIM ENG

Pharmaceutical Sector

Resilient!!

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VIETNAM

Growing market
Rising personal disposal income has improved living standards in Vietnam; thus, an increasing number of Vietnamese are paying attention to their health. Drug expenditure increased significantly by 25.4% from USD 1.1bn in 2007 to USD 1.4bn in 2008. It is noteworthy that the pharmaceutical sector has experienced a double-digit growth rate of 20.0%-29.0% during the 2003-2008 period.

Expansion of domestic drug producers
In 2008, domestic production increased by 19.1% to USD 0.72bn, accounting for 50.2% of the total drug market expenditure of USD 1.4bn. As required by the Ministry of Health, all drug manufacturing plants must comply with the WHO GMP standards prior to 1st Jan 2010. Therefore, this requires huge investments by domestic producers to upgrade their existing facilities or build new plants. As a result, as of the end of 2008, there are 89 WHO GMP compliant drug manufacturers, including 67 domestically-invested plants and 22 foreign-invested plants.

Increasing participation of FDI drug producers
There are additional 68 foreign drug companies registered for operation in Vietnam in 2008, increasing the number of foreign drug companies to 438. Foreign-invested drug manufacturing plants have invested in 40 drug manufacturing chains out of a total of 230 chains. Their production makes up 22% of total domestic production. Among the foreign players, the top three are: India (98 units or 22.4%), Korea (45 units or 10.3%) and China (41 units or 9.4%).

Distribution channel - an advantage of domestic players
Vietnam's Government has gradually liberalised the pharmaceutical sector as a commitment under the WTO. In particular, foreign-invested companies are permitted to directly import drugs from 1st Jan 2009. However, they were not allowed to distribute drugs in Vietnam. The drug distribution channel remains a competitive advantage for domestic players.

Ambitious plan to boost domestic supply
According to the development plan of the pharmaceutical sector up to 2015, issued by the Drug Administration of Vietnam, the authority aims to boost domestic supply to meet the market demand from 40% in 2007 to 60% in 2010 and 80% in 2015. As mentioned earlier, domestic supply met 50.2% of market demand in 2008. In summary, rising per capita income allows people to increase spending on their well-being, resulting in higher drug expenditure. With the advantage in distribution and deep knowledge of domestic market as well as clients, domestic drug producers will continue to enjoy a great part of the growing pharmaceutical market. We view **Hau Giang Pharmaceutical Joint Stock Company (DHG)** and **Imexpharm Pharmaceutical Joint Stock Company (IMP)** as good stock picks for investors who wish to have exposure to the pharmaceutical sector.

KIM ENG

Power sector

Waiting for a Change

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Strong demand growth!!!
The power sector is currently monopolised by the Electricity of Vietnam (EVN). Other than having its own power plants, EVN also purchases power supply from independent power producers and plays a role as a sole distributor to end-users. Electricity demand is expected to increase from 61.5bn kilowatt per hour (KWh) in 2006 to 100.0bn KWh in 2010, translating into an average annual growth rate of 15.7%. This is higher than an annual growth rate of 14.3% recorded in the 2001-2004 period. At present, the domestic power generated by the power producers is not sufficient to meet the growing demand. Therefore, EVN has to source additional power supply from China.

Negotiated power prices
The average electricity selling price of the power companies is negotiated between EVN and power companies based on the Government's regulations and set in their respective Power Purchasing Agreements (PPAs). Therefore, the profitability of power companies is highly dependent on the average selling price and the other terms outlined in the PPAs. Among the power companies under its management, we gather that EVN purchases electricity from Pha Lai Thermal Power at around VND623/kWh and from Vinh Son – Song Hinh at VND563/kWh.

Suffering from high expenses
We understand that the total costs of producing and distributing one kWh of electricity are higher than the price that EVN is allowed to collect from the end-users. Nonetheless, we believe that there will not be any significant upward revisions to the electricity prices in the near term as the Government is well aware of the impact on the overall inflation rate. Therefore, EVN may have to endure continued losses going forward. We are concerned that this could restrict its ability to build more power plants to meet the rising demand.

Development strategy towards a more liberalised and competitive market
The Government has planned to further improve the efficiency and production capacity of EVN to meet growing demand. Besides, there is also a plan to gradually reduce the monopoly position of EVN and equitise its subsidiaries to boost its earnings and cash flows. The Government has devised a roadmap to develop a more competitive distribution system from 2005 to 2014. A competitive wholesale market is expected to develop from 2014 to 2022 and a competitive retail market will follow. Besides that, the Government is planning to build a nuclear plant in the medium term to close the demand gap. Nuclear power is expected to add between 5.0% and 9.0% of the total power supply by 2020. The contribution of nuclear power to the country's total power supply is expected to grow to 11.0% in 2025, and between 25.0 and 30.0% in the 2040 – 2050 period.

More profitability in hydropower generation
The hydropower type of power companies have enjoyed higher profit margin thanks to their lower cost structure compared to power companies that use thermal power plants. Nonetheless, a prolonged dry season could cause a major disruption to the power supply of the hydropower plants. Therefore, power companies with thermal power plants would have to operate at full capacity in order to compensate the reduced power supply generated from hydropower. **Pha Lai Thermal Power Company (PPC)** and **Vinh Son – Song Hinh (VSH)** serve as good proxies to the power sector.

KIM ENG

Property Sector

Stimulus Package to Lean a Support

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Increased liquidity following expansionary economic policies
The SBV has slashed the prime interest rate from a high of 14.0% in June 2008 to the current 7% in order to reflate the economy. The required reserve ratio was lowered to improve the liquidity of the financial system. Besides that, the Government has also introduced a subsidised loan programme to sustain economic growth. We would not be surprised if more stimulus policies were to be introduced should the external environment deteriorate further, given that the inflation rate remains well within control. These expansionary economic policies have resulted in credit expansion, particularly the borrowings for the property market. The m-o-m growth rate of credit for property market was 11.2% in April, a significant increase from 0.5% in January, 0.2% in February, and 1.9% in March. This implies that the liquidity of property market has gradually improved.

Social housing programme laying a solid ground for the sector
The Ministry of Construction completed the blueprints for three social housing programmes for students, workers and low income earners in April 2009. These projects will be financed by the national budget. State-owned banks would provide the funding should the national budget delay its disbursement. The Government plans to spend around VND 8,000.0bn (USD 500.0mn) for student housing in the 2009-2010 period. HCMC and Hanoi are expected to receive VND2,500.0bn each, while the remaining VND3,000.0bn will be allocated to other key cities that include Hai Phong, Da Nang and Can Tho. The construction agencies under the local governments will be assigned to manage student housing projects. To encourage investor participation in these programmes, the Government has offered various incentives such as the land tax exemption scheme, high construction intensity and long-term loans with reduced rates.

Further liberalisation to boost the property sector
The Ministry of Construction has revised the Land and Housing Laws, allowing foreigners and foreign institutions based in Vietnam to buy properties, which has been approved by the National Assembly in its recent sitting. According to the revised law, foreigners who are eligible to buy a house must: (1) be working and living in Vietnam; (2) have stayed in Vietnam for more than one year; and (3) be buying a house for residence. Thereby, from the 1st of September, more overseas Vietnamese are allowed to buy and own houses in Vietnam. We expect the implementation of the law to boost the property market going forward.

Recent price cut in the South to support the property market
Since 1Q09, we have witnessed a round of price cuts by some property developers. The competitive pricing policies were first initiated by Hoang Anh Gia Lai when the Group started a 40.0% price reduction for its key projects, including Hoang Anh River View and Phu Hoang Anh. Other developers soon followed suit with Green Land Company reducing the selling price of its key projects by 41.2% from USD1,300 per sqm to USD764 per sqm. Although we expect the price cutting policies to trim the profit margin of the property developers, we believe that it could stimulate demand for property market.

VIETNAM

New laws to ensure transparency and a more efficient property market
A new bill on property tax has been drafted and is expected to take effect on the 1st of January 2011. The bill proposes three calculation methods for taxes on houses and land plots. These tax rates range from 0.05% to 0.1% on value of properties. The bill would be developed with an aim to help regulate property trading activities in the secondary market and prevent the current widespread speculation in property market. In addition, according to the Property Trading Law and Ministry of Construction's regulations, all property transactions should be undertaken through registered property trading floors with effect from 1st January 2009.

More diversified product offerings
In view of the continued challenging operating environment, we expect the property developers to diversify their product offerings to the mass consumer segment rather than purely focus on high-end property developments. We expect developers with large landbanks, particularly clean land with basic infrastructure, to benefit most from this emerging trend. The listed players in the sector include **Hoang Anh Gia Lai Group (HAG), Kinh Bac City Development Shareholding Corp (KBC), Refrigeration Electrical Engineering Corporation (REE), and Tan Tao Industrial Park Corporation (ITA)**.

KIM ENG

Shipping sector

Sinking with No Lifebuoy

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Shipping activities mainly focused on the domestic coastal routes
In Vietnam, shipping activities are mainly concentrated on domestic coastal routes, intra-regional liner services and transhipment to major shipping hub in Asia. There are around 134 container ships serving Vietnam's trading routes. At present, 69.4% of the vessels are engaged in regional liner routes with an average capacity of 1000 twenty-foot equivalent unit (TEU) per vessel and 30.6% are for feeder routes and domestic services. In the domestic shipping sector, Vinalines is the largest shipping firm with a total capacity of 1.3mn DWT, followed by Gemadept, Gematrans and Vinashin.

Aging shipping fleet
In recent years, the country's shipping fleet has frequently failed to meet the minimum safety requirements. Eighty vessels were held in foreign ports in 2008 and 15 in the first three months 2009 due to safety concerns. In addition, the average age of Vietnam's shipping fleet is about 20 years higher than the global average age of 11 years. Therefore, the competitiveness of Vietnam's fleet is low due to its high age profile.

Lower freight rates impacted by the economic downturn
The bulk carrier freight rate plummeted by 60% - 90% from May 2008 to Dec 2008. The Baltic Dry Index, a key shipping and trade index, also plunged by 90% during the same period. Furthermore, the freight rate of oil & liquid tankers declined by around 50%. Although these rates have recovered from its low recently, we understand that most shipping companies continue to face many challenges due to low freight rates and decreased demand given the slowdown in regional trade. Furthermore, the recent surge in the oil price could increase the operating costs of the shipping operators. Therefore, we are not excited about the near-term prospects of the shipping sector.

Seaports development crucial to sustain economic growth
Given that Vietnam's economic growth is highly dependent on global trade, we believe that the development of international ports is crucial for long-term economic growth. At present, the country has a wide range of seaport networks covering 24 coastal provinces. These seaports can handle around 106mn tonnes of shipment per annum and their capability is expected to increase to around 200mn tonnes in 2010. Nonetheless, most of Vietnam' ports are shallow drafted with limited capacity and therefore restricted to only small feeder vessels of about 1,500 TEU in the South and 6,800 TEU in the North. The Government has devised a development blueprint for international ports to overcome the constraints in the existing ports. This includes the construction of Cai Mep - Thi Vai deepwater ports in the South and Van Phong Bay International Transhipment Port. The Van Phong port that is located at the heart of South China Sea shipping lanes is part of a massive infrastructure plan with a total investment of USD3.5bn. It is expected to allow vessels up to 15,000 TEU. Listed companies such as **Gemadept Corporation (GMD) and Petrovietnam Transportation Corporation (PVT)** will provide investors with good exposure to the shipping sector.

STOCKS TO WATCH

KIM ENG

Phu My Fertilizer

Cyclically and Structurally Strong

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Price	**VND 44,000**
VN Index	**453.8**

Historical Chart

Performance	1m	3m	6m
Absolute (%)	4.8	37.5	27.9
Relative (%)	-5.1	-24.1	-21.9

Stock Information

Ticker code	**DPM**
Market cap (VND bn)	16,720
52-week high (VND)	70,000
52-week low (VND)	26,800
Shares issued (m)	380.0
6m avg d.vol (VND bn	30.1
Free float (%)	31.8
Major shareholders (%)	
	PVN (state) (61.4%)
	BIDV (3.7%)
	PVFC (2.1%)

Key Indicators

ROE (%)	24.6
Net gearing (%)	Net cash
NTA (VND)	13,722
Interest cover (x)	n/a

A dominant fertiliser producer in Vietnam
PetroVietnam Fertiliser and Chemicals Corporation (DPM) is also known as Phu My Fertiliser because of its plant location in the Phu My District. Its USD 370.0mn plant that commenced its operations in Sep 2004 produces 740,000 tonnes of urea annually from natural gas. The Group has captured more than 50% of the domestic fertiliser market with the second fertiliser producer lagging far behind.

Benefiting from rising agriculture outputs
Vietnam is among the top exporters in the world for rice, coffee, cashew nuts and pepper. Agricultural sector has been growing at an annual rate of 3.6% in the past 10 years. However, the country's plantation area has shrunk due to rapid industrialisation and urbanisation. As such, more fertiliser is being used to improve the fresh fruits yield.

The absence of depreciation expenses to boost earnings
DPM uses about 22mn MMBtu of natural gas annually based on a three- year contractual price of USD2.2/MMBtu till December 2009. The gas price then will be revised upward gradually, which is expected to increase its operating costs. Nonetheless, we expect its earnings growth to be sustainable in the absence of depreciation expenses, given that its plant will be fully depreciated by September 2010.

Strong cash flow to support expansion in production capacity
The Group is investing VND 607.0bn to raise its annual urea production capacity by 60,000 MT to 800,000 MT by 2011. It also plans to invest VND 1,100.0bn to build a new NPK fertiliser plant. These projects will be financed by its internal resources. As of 31 March 2009, the Group has a net cash position of VND 1,666.8bn.

Distressed valuation!!!
The Group is currently trading at an expected PER of 13.8x that is significantly below the 22.4x average PER of its regional peers. We are optimistic about the Group's prospect over the next three years given that new competition will only set in after 2011 with their completion of new plants. Potential catalysts for DPM include the unexpected surge in urea price and possible overseas listing to narrow the valuation gap.

Year End Dec 31	2006	2007	2008	2009F	2010F
Sales (VND bn)	3,050.8	3,779.0	6,475.4	5,990.7	5,877.2
Pre-tax (VND bn)	1,161.5	1,321.0	1,500.9	1,326.7	1,447.2
Net profit (VND bn)	1,161.3	1,320.8	1,383.9	1,214.9	1,338.7
EPS (VND)	4,516.5	3,475.8	3,648.7	3,197.1	3,522.8
EPS growth (%)	80.2	-23.0	5.0	-12.4	10.2
PER (x)	9.7	12.7	12.1	13.8	12.5
EV/EBITDA (x)	5.4	6.5	6.3	6.3	7.3
Yield (%)	-	2.3	3.4	3.0	4.5

Profit and loss

YE Dec (VND bn)	2006	2007	2008	2009F	2010F
Sales	**3,050.8**	**3,779.0**	**6,475.4**	**5,990.7**	**5,877.2**
COGS exclude Dep.	-980.0	-1,208.8	-3,544.7	-3,099.0	-3,221.9
Depreciation	-944.8	-1,089.4	-1,079.4	-1,084.7	-694.8
Gross profit	**1,126.0**	**1,480.9**	**1,851.2**	**1,807.0**	**1,960.5**
Operating exp.	-206.3	-211.2	-445.9	-613.8	-705.3
EBIT	**919.8**	**1,269.7**	**1,405.3**	**1,193.3**	**1,255.3**
Net financial incomes (loss	-98.8	43.7	89.5	126.5	185.9
Net Income (loss) fr. jv	-	-	-	-	-
Net extra-ordinaries	340.5	7.6	6.0	7.0	6.0
PBT	**1,161.5**	**1,321.0**	**1,500.9**	**1,326.7**	**1,447.2**
Income tax	-0.2	-0.2	-115.6	-111.6	-108.5
Minority interest			-1.4	-0.3	
Net profit	**1,161.3**	**1,320.8**	**1,383.9**	**1,214.9**	**1,338.7**
EBITDA	1,864.5	2,359.1	2,484.7	2,278.0	1,950.1
EPS	4,516.5	3,475.8	3,648.7	3,197.1	3,522.8

Source: Company data, Kim Eng estimates

Cash flow

YE Dec (VND bn)	2006	2007	2008	2009F	2010F
Operating cash flow	**2,620.6**	**-7.4**	**797.2**	**2,699.8**	**1,998.5**
Net profit	1,161.3	1,320.8	1,383.9	1,214.9	1,338.7
Depreciation	944.8	1,089.4	1,079.4	1,084.7	694.8
Change in working capital	83.8	423.7	-1,612.6	614.6	-35.0
Others	430.7	-2,841.3	-53.6	-214.4	0.0
Investment cash flow	**629.4**	**-97.1**	**-305.5**	**-850.5**	**-1,058.4**
Net capex	227.2	-546.8	-198.1	-866.1	-1,058.4
Change in investment	400.1	905.5	-181.1	-9.9	-
Change in other assets	2.0	-455.8	73.6	25.4	-
Cash flow after Investment	3,250.0	-104.5	491.6	1,849.3	940.0
Financing cash flow	**-1,722.7**	**358.8**	**-1,521.3**	**-510.2**	**-760.0**
Change in share capital	-578.1	1,228.8	-35.1	-8.2	-
Net change in debt	-1,122.2	-869.0	-573.0	-7.1	-
Others	1.0	-0.9	31.2	-0.7	-
Div paid	-23.5	-	-944.3	-494.2	-760.0
Net cash flow	**1,527.2**	**254.4**	**-1,029.6**	**1,339.1**	**180.0**

Source: Company data, Kim Eng estimates

Balance sheet

YE Dec (VND bn)	2006	2007	2008	2009F	2010F
Total assets	**6,665.8**	**5,741.3**	**5,192.4**	**5,969.3**	**6,471.7**
Current assets	3,299.7	2,467.6	2,692.5	3,703.6	3,842.4
Cash	1,718.0	1,972.4	942.7	2,281.8	2,461.8
ST investment	900.0	-	-	-	-
Inventories	248.1	400.7	1,111.3	820.5	812.0
Trade receivable	21.0	43.6	554.9	530.7	498.0
Others	412.6	50.9	83.6	70.6	70.6
Other assets	3,366.1	3,273.7	2,499.9	2,265.7	2,629.3
LT Investment	29.9	24.4	205.5	215.4	215.4
Net fix assets	3,323.2	2,780.6	1,899.3	1,680.7	2,044.3
Others	12.9	468.7	395.0	369.6	369.6
Total liabilities	**2,005.5**	**1,372.8**	**450.9**	**730.7**	**654.4**
Current liabilities	1,135.0	1,372.7	438.6	721.2	645.0
Trade payable	84.2	191.7	259.9	211.6	135.4
ST borrowings	579.6	580.1	4.0	-	-
Others	471.2	600.9	174.7	509.6	509.6
Long-term liabilities	870.5	0.1	12.3	9.4	9.4
Long-term debts	869.5	-	3.0	-	-
Others	1.0	0.1	9.3	9.4	9.4
Shareholders' equity	**4,660.2**	**4,368.5**	**4,741.4**	**5,238.7**	**5,817.3**
Paid in capital	2,571.2	3,800.0	3,764.9	3,756.7	3,756.7
Reserve	2,072.7	562.0	922.8	1,439.4	2,018.1
Other provisions	16.3	6.5	31.6	21.4	21.4
Minority interests	-	-	22.0	21.2	21.2

Source: Company data, Kim Eng estimates

Key ratios

YE Dec	2006	2007	2008	2009F	2010F
Growth (YoY %)					
Sales	20.2	23.9	71.3	-7.5	-1.9
EBIT	16.4	38.0	10.7	-15.1	5.2
EBITDA	7.6	26.5	5.3	-8.3	-14.4
Net profit	46.7	13.7	4.8	-12.2	10.2
EPS	80.2	-23.0	5.0	-12.4	10.2
Profitability (%)					
Gross margin	36.9	39.2	28.6	30.2	33.4
EBIT margin	30.1	33.6	21.7	19.9	21.4
EBITDA margin	61.1	62.4	38.4	38.0	33.2
Net margin	38.1	35.0	21.4	20.3	22.8
ROA	19.7	22.6	24.7	21.8	21.5
ROE	28.0	29.3	30.6	24.6	24.4
Stability					
Gross debt/equity (%)	31.2	13.3	0.2	-	-
Net debt/equity (%)	-25.2	-31.9	-20.0	-43.9	-42.6
Interest coverage (x)	6.3	15.8	-45.3	-	-
Int.& ST debt coverage (x)	1.3	1.9	5.4	-	-
CFO int. coverage (x)	17.9	-0.1	-25.7	-	-
CFO int.& ST coverage (x)	3.6	0.0	3.1	-	-
Current ratio (x)	2.9	1.8	6.1	5.1	6.0
Quick ratio (x)	2.7	1.5	3.5	3.9	4.6
Assets turnover (x)	0.5	0.6	1.2	1.1	0.9
Avg. inventories (days)	69.2	51.5	59.8	84.3	76.1
Avg. trade receivables (d)	1.7	3.1	16.9	33.1	31.9
Avg. trade payables (d)	13.6	21.9	17.9	20.6	16.2
Net cash (debt) (VND bn)	1,168.9	1,392.2	935.6	2,281.8	2,461.8
Per share data (VND)					
EPS	4,517	3,476	3,649	3,197	3,523
OCFPS	10,192	-19	2,102	7,105	5,259
BVPS	18,061	11,479	12,360	13,674	15,197
SPS	11,865	9,945	17,073	15,765	15,466
EBITDA/share	7,251	6,208	6,551	5,995	5,132
Cash Div/share	-	1,000	1,500	1,300	2,000

Source: Company data, Kim Eng estimates

KIM ENG

PV Drilling

Best Proxy to The Domestic Oil and Gas Sector

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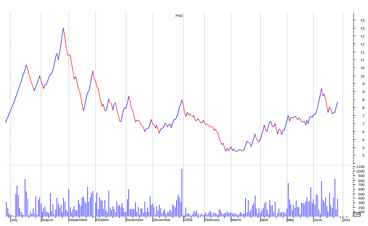
Price	**VND 83,500**
VN Index	**453.8**

Historical Chart



Performance	1m	3m	6m
Absolute (%)	12.1	40.3	9.2
Relative (%)	2.3	-21.2	-40.7

Stock Information

Ticker code	PVD
Market cap (VNDbn)	11,036
52-week high (VND)	132,000
52-week low (VND)	52,000
Shares issued (mn)	132.2
6m avg d.vol (VNDbn)	14.1
Free float (%)	34.1
Major shareholders (%)	
	Petro Vietnam (50.4)
	PVFC (6.8)
	VCB (4.4)

Key Indicators

ROE (%)	29.5
Net gearing (%)	184.1
NTA (S$)	22.131
Interest cover (x)	6.7

Vietnam oil and gas giant in the making

PetroVietnam Drilling and Well Services Corporation (PV Drilling) has grown rapidly over the past few years from an oil tools leasing and oil spill control company to a full-fledged drilling and well services provider. The Group has 10.0% market share in the provision of drilling rig services that accounted for 40.0% of its revenue and 80.0% of its earnings respectively in 2008. It also commanded 90.0% of the market share in the provision of drilling crew and oil spill control, 80.0% market share in well cementing and stimulation services. Besides that, it has about 50.0% of the market share in other well services such as well testing and wireline logging.

Additional income streams from two new offshore rigs

PVD have recently signed a 60-day lease contract with Vietgazprom for its first new rig at a daily rate of USD 225,000. Upon the expiration of this contract, its offshore rig will continue to be deployed by a new lessee, Phu Quy JOC. We gather that PVD is able to sign a long-term lease contract with Premier Oil for its second new rig that comes onstream in late 2009. Given the supports from PetroVietnam, PVD believes that it will find contracts for its third new rig that will come on-stream in early 2010.

Successfully sourced for financing

PVD has successfully obtained a syndicated loan amounting to USD 150.0mn for its third new jack up rig with a loan term of 6.5 years. Its net debt to equity ratio was about 1.8x as of 31 March 2009. PVD is expected to gradually lower this ratio over the next few years. The Group's EPS will be diluted due to additional 20mn new shares from its merger with PVD Investment. We expect the EPS for this year to drop by 30.0% due to a lower daily lease rate, high interest expenses and earning dilution.

Benefit from rising exploration and production (E&P) activities

Despite the economic slowdown in 2009, we believe that the demand for offshore rigs over the next few years to remain robust although the daily charter rate to decline marginally. With the recent recovery of oil price, we expect PVD to receive a favourable daily lease rate with the deployment of a second oil rig in late 2009, which could sustain its earnings growth. We are also optimistic that the future earnings of PVD would remain strong as it will be participating in overseas E&P projects that its parent, PetroVietnam, is implementing in Iraq and Venezuela.

Year End Dec 31	2006	2007	2008	2009F	2010F
Sales (VND bn)	1,421.6	2,738.6	3,728.7	3,970.3	6,054.1
Pre-tax (VND bn)	166.7	579.9	928.7	808.9	1,212.2
Net profit (VND bn)	120.1	571.9	922.3	767.3	1,188.3
EPS (VND)	937.1	4,406.1	6,978.0	4,881.7	7,287.3
EPS growth (%)	114.9	370.2	58.4	-30.0	49.3
PER (x)	89.1	19.0	12.0	17.1	11.5
EV/EBITDA (x)	64.6	16.1	12.2	19.2	9.3
Yield (%)	-	1.8	3.0	-	-

VIETNAM

Profit and loss

YE Dec (VND bn)	2006	2007	2008	2009F	2010F
Sales	**1,421.6**	**2,738.6**	**3,728.7**	**3,970.3**	**6,054.1**
Cost of goods sold excl Dep.	-1,203.1	-1,886.6	-2,335.5	-2,745.9	-3,679.4
Depreciation	-15.4	-145.3	-184.8	-189.4	-679.5
Gross profit	**203.1**	**706.7**	**1,208.4**	**1,035.0**	**1,695.1**
Operating expenses	-44.2	-111.0	-236.2	-245.0	-432.8
EBIT	**158.9**	**595.7**	**972.2**	**789.9**	**1,262.4**
Net financial income (loss)	5.8	-53.4	-94.3	-10.9	-124.9
Net income (loss) JV+Assoc.		32.5	54.1	70.7	151.4
Net extraordinaries	2.0	5.1	-3.2	-40.8	-76.6
Pretax profit	**166.7**	**579.9**	**928.7**	**808.9**	**1,212.2**
Income taxes	-46.6	-3.5	4.3	-29.0	-
Minority interests		-4.5	-10.8	-12.7	-23.9
Net profit	**120.1**	**571.9**	**922.3**	**767.3**	**1,188.3**
EBITDA	174.4	741.0	1,157.0	979.3	1,941.9
EPS (VND)	937.1	4,406.1	6,978.0	4,881.7	7,287.3

Source: Company data, Kim Eng estimates

Cash flow

YE Dec (VND bn)	2006	2007	2008	2009F	2010F
Operating cash flow	**-336.2**	**-138.6**	**1,837.7**	**342.6**	**2,069.0**
Net profit	120.1	571.9	922.3	767.3	1,188.3
Depreciation & amortisation	15.4	145.3	184.8	189.4	679.5
Change in working capital	132.2	-734.0	1,236.4	-582.2	201.2
Others	-604.0	-121.8	-505.8	-31.9	
Investment cash flow	**-744.1**	**-1,310.9**	**-4,213.0**	**-3,844.3**	**-889.4**
Net capex	-742.5	-1,189.2	-3,922.8	-4,121.3	-889.4
Change in LT investment		-66.4	-298.7	280.9	
Change in other assets	-1.7	-55.3	8.5	-3.9	
Cash flow after investments	-1,080.4	-1,449.5	-2,375.3	-3,501.7	1,179.6
Financing cash flow	**1,096.4**	**1,818.9**	**2,541.2**	**3,813.7**	**-602.8**
Change in share capital	564.6	622.6	220.3	250.0	58.9
Net change in debt	530.7	697.8	2,459.5	2,838.8	-661.7
Change in other LT liab.	1.0	498.6	228.9	724.9	
Div paid			-367.5		
Net cash flow	**16.0**	**369.3**	**165.8**	**312.0**	**576.8**

Source: Company data, Kim Eng estimates

Balance sheet

YE Dec (VND bn)	2006	2007	2008	2009F	2010F
Total assets	**2,174.2**	**4,329.9**	**8,632.9**	**12,764.7**	**13,531.2**
Current assets	680.4	1,670.5	2,065.3	2,422.3	2,978.8
Cash	152.6	521.9	687.8	999.8	1,576.6
ST investment			120.0		
Inventories	64.6	45.7	174.5	57.8	68.7
Trade receivable	426.2	1,026.8	1,047.0	1,340.4	1,309.3
Others	37.0	76.1	36.1	24.3	24.3
Other assets	1,493.8	2,659.4	6,567.6	10,342.4	10,552.3
LT investments		66.4	245.1	84.2	84.2
Net fixed assets	1,490.9	2,534.8	6,272.7	10,204.6	10,414.5
Others	2.9	58.2	49.8	53.7	53.7
Total liabilities	**1,382.6**	**1,968.6**	**6,008.5**	**9,143.0**	**8,662.3**
Current liabilities	676.1	672.1	3,892.0	2,016.5	2,333.7
Trade payable	387.4	298.6	1,291.7	1,221.5	1,300.4
ST borrowings		109.2	1,983.8	525.5	661.7
Others	288.7	264.3	616.5	269.5	371.5
Long-term liabilities	706.5	1,296.6	2,116.4	7,126.5	6,328.6
Long-term debts	705.5	1,294.0	1,878.9	6,176.0	5,378.0
Others	1.0	2.5	237.5	950.5	950.5
Shareholder's equity	**791.6**	**2,361.3**	**2,624.4**	**3,621.7**	**4,868.9**
Paid-in capital	680.0	1,302.6	1,522.8	1,772.8	1,831.8
Reserve	103.6	527.9	591.0	1,323.7	2,511.9
Other provisions	7.9	33.8	19.6	22.3	22.3
Minority interests		497.1	491.0	502.9	502.9

Source: Company data, Kim Eng estimates

Key ratios

YE Dec	2006	2007	2008	2009F	2010F
Growth (% YoY)					
Sales	32.7	92.6	36.2	6.5	52.5
EBIT	144.3	274.8	63.2	-18.7	59.8
EBITDA	80.0	325.0	56.2	-15.4	98.3
Net profit	128.7	376.0	61.3	-16.8	54.9
EPS	114.9	370.2	58.4	-30.0	49.3
Profitability (%)					
Gross margin	14.3	25.8	32.4	26.1	28.0
EBIT margin	11.2	21.8	26.1	19.9	20.9
EBITDA margin	12.3	27.1	31.0	24.7	32.1
Net margin	8.5	20.9	24.7	19.3	19.6
ROA	7.2	19.9	15.4	8.3	10.1
ROE	16.2	43.8	46.8	29.5	31.9
Stability					
Gross debt/equity (%)	90.0	76.7	182.7	216.4	139.0
Net debt/equity (%)	70.6	48.1	144.5	184.1	102.8
Int. coverage (X)		7.8	12.3	6.7	8.9
Int. & ST debt coverage (X)		4.5	0.9	0.6	1.7
Cash flow int. coverage (X)		-1.8	23.3	2.9	14.6
Cash flow int. & ST debt (X)		-1.1	1.6	0.2	2.8
Current ratio (X)	1.0	2.5	0.5	1.2	1.3
Quick ratio (X)	0.9	2.3	0.5	1.2	1.2
Assets turnover (X)	0.8	0.8	0.6	0.4	0.5
Avg. inventories (days)	12.2	9.9	16.0	14.4	5.3
Avg. trade receivable (days)	87.5	96.8	101.8	109.7	79.9
Avg. trade payables (days)	93.8	61.6	115.5	156.3	105.6
Net cash/(debt) (VND bn)	-552.9	-881.3	-3,054.9	-5,701.7	-4,463.2
Per share data (VND)					
EPS	937	4,406	6,978	4,882	7,287
CFPS	-2,623	-1,068	13,904	2,180	12,689
BVPS	6,113	13,849	15,994	19,702	26,639
SPS	11,089	21,099	28,212	25,262	37,128
EBITDA/share	1,360	5,709	8,754	6,231	11,909
Cash Div		1,543	2,500		

Source: Company data, Kim Eng estimates

KIM ENG

REE

Having The Right Ingredients for Re-rating

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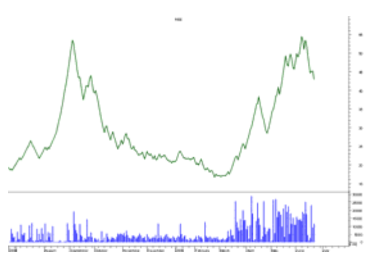
Price	**VND 42,000**
VN Index	**453.8**

Historical Chart



Performance	1m	3m	6m
Absolute (%)	-0.2	113.6	111.7
Relative (%)	-17.7	36.9	54.9

Stock Information

Ticker code	**REE**
Market cap (VNDbn)	3,441
52-week high (tsd VND)	54.5
52-week low (tsd VND)	16.7
Shares issued (mn)	80.9
6m avg d.vol (VNDbn)	28.4
Free float (%)	n/a
Major shareholders (%)	
	HIFU (6.0)
	VOF (4.9)

Key Indicators

ROE (%)	-7.1%
Net gearing (%)	-17.3%
NTA (VND/share)	25,770
Interest cover (x)	10.9

Strong corporate governance and visionary leadership
We view Refrigeration Electrical Engineering Corporation (REE) as a listed company in Vietnam that upholds high standard of corporate governance and is managed by a group of highly competent and professional leaders. REE is one of the first few companies who started providing investment losses for its investment portfolio back in 1Q08.

Sustainable core income stream
Despite the cloudy earnings prospect, we foresee that REE is able to sustain strong earnings growth from two of its core businesses- office leasing and mechanical & electrical engineering (M&E) services. At present, the Group has a total leasable area of 70,132 sqm from the four E-town (ET) office buildings. The office leasing segment generated an operating income of VND 133.6bn on the back of VND 236.9bn revenue in 2008. From 2009 onward, its earnings will be boosted by the additional income generated from the leasing of new ET3 and ET4. For M&E contracts, the Group has replenished its orderbook to VND1,200.0bn which could last for the next two years.

Earnings to turnaround
The net losses recorded last year was primarily due to the impairment of its investment portfolio. We do not expect the history to repeat itself in view of the the recovery of the equity market from its February low. The Group has provided an impairment loss of VND 185.4bn on its investment portfolio for the 1Q09 which we expect a write back to occur in the second quarter given the market recovery.

Good proxy to government stimulus program
In order to sustain the economic growth, the Government has implemented stimulus packages including multibillion infrastructure projects to pump primp the economy. In 2008, REE had secured large numbers of M&E contracts with total value of VND 1,200.0bn, including some important government-funded projects such as Hanoi Museum. Given its strong track record and established reputation as a prominent M&E contractor in Vietnam, we are optimistic that REE is poised to benefit from the stimulus package.

Inexpensive valuation
We are optimistic about the domestic equity market going forward and set a yearend VN-Index target of 550 points. Given its sizeable investment holdings, we expect REE to benefit from the upcycle of the equity market. REE is currently trading at an expected PER of 15.2x which is lower than the overall market PER. We continue to like the stock given its inexpensive valuation, solid asset base, turnaround in earnings and competent management.

Year End Dec 31	2005	2006	2007	2008	2009E
Sales (VND b)	387.4	824.1	977.1	1,154.4	1,300.0
Pre-tax (VND b)	81.0	299.0	392.0	(141.7)	300.0
Net profit (VND b)	67.8	222.4	291.0	(153.8)	224.4
EPS (VND)	1,097	3,592	3,656	(1,898)	2,770
EPS core (VND)	1,056	1,849	1,845	2,632	2,770
PER (x)	38.3	11.7	11.5	(22.1)	15.2
EV/EBITDA (x)	36.4	17.4	11.6	13.5	14.7

VIETNAM

Profit and loss

YE Dec (VNDb)	2004	2005	2006	2007	2008
Sales	**363.8**	**387.4**	**824.1**	**977.1**	**1,154.4**
Cost of goods sold	(243.7)	(249.1)	(607.5)	(679.3)	(824.3)
Gross profit	**120.1**	**138.3**	**216.6**	**297.8**	**330.1**
Operating expenses	(53.1)	(60.5)	(62.0)	(103.0)	(137.3)
Operating profit	**67.1**	**77.8**	**154.6**	**194.8**	**192.8**
Net finanical income	(2.9)	8.8	142.2	190.4	(342.0)
Net other income	0.6	(5.6)	2.2	6.8	7.6
Net other non-op. JV+Assoc.	-	-	-	-	-
Pretax profit	64.7	81.0	299.0	392.0	(141.7)
Income taxes	(8.5)	(13.0)	(76.5)	(100.5)	(12.2)
Minority interests	(0.0)	(0.2)	(0.1)	(0.5)	0.1
Net profit	**56.3**	**67.8**	**222.4**	**291.0**	**(153.8)**
EBITDA	-	*92.6*	*173.1*	*223.0*	*228.9*
EPS (VND)		**1,097.4**	**3,592.2**	**3,656.0**	**(1,898.2)**

Source: Company data, Kim Eng estimates

Cash flow

YE Dec (VNDb)	2005	2006	2007	2008
Operating cash flow	**107.7**	**52.8**	**45.7**	**82.0**
Net income	67.8	222.4	291.0	(153.8)
Depreciation & amortisation	14.8	18.5	28.1	36.1
Change in working capital	15.2	(121.1)	(166.6)	(167.4)
Others	9.9	(67.1)	(106.9)	367.0
Investment cash flow	**(119.4)**	**(277.2)**	**(937.9)**	**(88.2)**
Net capex	(35.7)	(156.5)	(97.6)	(151.5)
Change in LT investment	(96.2)	(125.9)	(896.3)	22.5
Change in other assets	12.5	5.1	56.1	40.7
Financing cash flow	**158.2**	**372.2**	**879.7**	**59.4**
Change in share capital	157.4	391.2	908.6	-
Net change in debt	14.3	13.5	3.6	59.4
Change in other	(13.5)	(32.5)	(32.4)	(0.0)
Net cash flow	146.5	147.8	(12.5)	53.2

Source: Company data, Kim Eng estimates

Balance sheet

YE Dec (VNDb)	2005	2006	2007	2008
Total assets	**833.7**	**1,512.6**	**2,891.1**	**2,608.3**
Current assets	409.0	901.7	1,615.2	1,119.0
Cash & ST investment	177.6	546.1	978.7	541.5
Inventories	129.2	96.6	204.9	107.0
Accounts receivable	102.0	258.6	407.5	457.6
Others	0.2	0.4	24.1	12.9
Other assets	424.7	610.9	1,275.9	1,489.3
LT investments	361.9	426.5	1,220.4	1,440.9
Net fixed assets	61.5	180.9	53.6	45.4
Others	1.3	3.5	1.9	3.1
Total liabilities	**321.1**	**427.2**	**635.4**	**509.0**
Current liabilities	247.4	330.1	531.1	403.5
Accounts payable	176.9	226.8	322.1	191.0
ST borrowings	60.4	58.8	73.8	148.3
Others	10.1	44.5	135.2	64.3
Long-term liabilities	73.7	97.2	104.3	105.4
Long-term debts	43.9	59.0	47.6	32.6
Others	29.8	38.1	56.7	72.9
Shareholder's equity	**512.1**	**1,084.6**	**2,244.8**	**2,088.5**
Paid-in capital	397.9	790.3	1,890.6	2,125.8
Reserve	114.4	294.3	354.2	(38.7)
Others	(0.2)	-	0.0	1.3
Minority interests	**0.6**	**0.8**	**10.9**	**10.8**

Source: Company data, Kim Eng estimates

Key ratios

YE Dec (VNDb)	2005	2006	2007	2008
Growth (% YoY)				
Sales	6.5	112.8	18.6	18.1
Operating profit	16.0	98.8	26.0	-1.1
EBITDA		87.0	28.8	2.6
Net profit	20.6	227.8	30.8	(152.8)
EPS		227.4	1.8	(151.9)
Profitability (%)				
EBITDA margin	23.9	21.0	22.8	19.8
Gross margin	35.7	26.3	30.5	28.6
Operating margin	20.1	18.8	19.9	16.7
Net margin	17.5	27.0	29.8	(13.3)
ROA	16.3	19.0	13.2	(5.6)
ROE	26.5	27.9	17.5	(7.1)
Stability				
Gross debt/equity (%)	20.4	10.9	5.4	8.7
Net debt/equity (%)	(14.3)	(39.5)	(38.2)	(17.3)
Int. coverage (X)	10.3	14.2	20.6	10.9
Int. & ST debt coverage (X)	1.1	2.2	2.3	1.2
Cash flow int. coverage (X)	14.3	4.9	4.8	4.6
Cash flow int. & ST debt (X)	1.6	0.8	0.5	0.5
Current ratio (X)	1.7	2.7	3.0	2.8
Quick ratio (X)	1.1	2.4	2.7	2.5
Net debt (VNDb)	(73.3)	(428.3)	(857.3)	(360.7)
Per share data (VND)				
EPS	1,097	3,592	3,656	(1,898)
CFPS	1,742	853	574	1,012
BVPS	8,285	15,278	27,878	25,768
SPS	6,265	13,310	12,276	14,252
EBITDA/share	1,497	2,796	2,802	2,826
DPS	-	-	1,000	-

Source: Company data, Kim Eng estimates

KIM ENG

Sacombank

The Upcoming Regional Bank

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Price	**VND34,300**
VN-Index	**453.8**

Historical Chart

Performance	1m	3m	6m
Absolute (%)	27.0	103.0	87.4
Relative (%)	20.3	39.5	37.3

Stock Information

Ticker code	**STB**
Foreign-owned (%)	30.0
Market cap (VNDbn)	17,548
Market cap (USDm)	1,032
52-week high (VND)	57,700
52-week low (VND)	18,000
Shares issued (m)	511.6
6m avg d.vol (VNDbn)	27.5
Free float (%)	55.5
Major shareholders (%)	
	ANZ (10.0)
	DC (8.7)
	IFC (5.2)
	REE (4.6)

Key Indicators

ROE (%)	14.4
BV/Share (VND)	18,230
NPL ratio	0.70

Second largest private retail bank
Established by a merger between a bank and four other credit institutions, STB has expanded rapidly to become the second largest bank in the private commercial segment and the sixth in the sector. At the end of 2008, the Group had total assets of VND 64,438.0bn, accounting for 3.8% of the sector's assets.

Strong rebound from the trough
Compared to a CAGR exceeding 60.0% since its establishment, its asset growth of 6.0% in 2008 was exceptionally low. Nevertheless, we are starting to witness a stronger growth this year given that the Group's assets increased by 14.8% in May on a year-to-date basis. Accordingly, its customer deposits and loans surged by 49.8% and 28.9% respectively for the first five months of this year.

Outstanding asset quality
For years, Sacombank had maintained its NPL ratio of less than 1%. Despite the homegrown liquidity crunch, coupled with the meltdown in various asset classes in Vietnam, the Group's NPL ratio remained low at 0.6% for 2008, which we believe is commendable. In fact, its CAR improved from 11.1% in 2007 to 12.2% in 2008 upon the new equity issuance.

Tremendous potential with "Indochina bank" strategy
Sacombank has focused on the untapped, yet potentially lucrative, rural markets, particularly in the Mekong delta, since its inception. Nowadays, the Group has the largest network amongst the joint stock commercial banks (JSCBs). The management has devised a strategy for the Group to engage in an overseas expansion to countries that are under explored and offer huge potential. The Group is the first domestic bank that started operations in the Guangxi province, China. Besides that, the Group has established branches in Laos and Cambodia.

Double-digit earnings growth over the next few year
We expect the Group to enjoy high double-digit earnings growth rates in the coming years, boosted by the interest rate subsidy programme and the recovery of the domestic economy. Furthermore, we gather that the management is aggressively expanding its non-interest income streams through trade and project financing.

Cheaper proxy to the banking sector given its wide valuation gap
The Group is currently trading at a forward P/B ratio of 1.9x, which is at a steep discount against ACB's forward P/B ratio of 3.0x. We believe that the valuation gap is mainly due to the potential exit of ANZ and its disappointing earnings last year. Nonetheless, we believe that the valuation gap will narrow going forward with the strong earnings growth and the possible emergence of a new strategic partner.

Year	2007	2008	2009E	2010F	2011F
Net profit (VNDbn)	1,398	955	1,198	1,796	2,743
EPS (VND)	3,463	1,866	2,504	3,512	5,362
EPS growth (%)	189.1	-46.1	34.2	40.2	52.7
PER (x)	10.0	18.6	13.9	9.9	6.5
BVPS (VND)	14,366	15,166	18,230	21,741	27,103
P/BV (x)	2.4	2.3	1.9	1.6	1.3
ROA (%)	3.1	1.4	1.6	1.8	2.1
ROE (%)	27.4	12.6	14.4	17.6	22.0

VIETNAM

Profit and loss

YE Dec (VNDbn)	2007	2008	2009E	2010F	2011F
Interest income	3,383	7,161	6,877	9,299	12,277
Interest expense	-2,231	-6,014	-5,452	-7,219	-9,160
Net interest income	**1,152**	**1,147**	**1,425**	**2,080**	**3,117**
Non-interest income	1,290	1,307	1,854	2,205	2,675
Total operating income	**2,442**	**2,454**	**3,279**	**4,285**	**5,792**
Salary & related expenses	-346	-643	-740	-851	-978
Other expense	-395	-627	-721	-829	-953
Non-interest expense	**-741**	**-1,270**	**-1,460**	**-1,679**	**-1,931**
Operating profit	**1,700**	**1,184**	**1,819**	**2,606**	**3,860**
Provisions	-118	-74	-222	-210	-203
Pretax profit	**1,582**	**1,110**	**1,597**	**2,395**	**3,657**
Tax	-184	-155	-399	-599	-914
Net profit	**1,398**	**955**	**1,198**	**1,796**	**2,743**

Source: Company data

Balance sheet

YE Dec (VNDbn)	2007	2008	2009E	2010F	2011F
Total assets	**64,572.9**	**68,438.6**	**89,756.2**	**114,301.8**	**141,754.5**
Cash & cash equiv.	3,335.1	8,458.6	9,304.5	10,234.9	11,258.4
Balance with SBV	3,878.8	3,224.5	4,356.8	6,135.9	8,259.8
Interbanks	4,656.5	7,047.6	7,456.1	7,449.0	7,362.8
Trading securities	4,142.1	370.1	686.5	720.8	756.8
Net loans	35,200.6	34,757.1	50,898.9	68,643.0	92,678.5
Invest.securities	9,173.8	8,969.6	9,120.2	9,576.2	10,055.0
Others	4,186.1	5,611.0	7,933.3	11,542.1	11,383.1
Total liabilities	**57,223**	**60,680**	**80,430**	**103,179**	**127,889**
Borrowing from SBV	750	52	57	63	69
Interbanks	4,509	4,488	4,937	5,332	5,759
Customer deposits	49,429	53,788	72,614	94,398	117,997
Others	2,535	2,352	2,822	3,386	4,063
Total equity	**7,350**	**7,759**	**9,326**	**11,123**	**13,866**
Capital	5,662	6,330	6,329	6,329	6,329
Reserves	453	445	1,357	1,910	3,635
Retained Earnings	1,235	984	1,640	2,884	3,901

Source: Company data

Key ratios

YE Dec	2007	2008	2009E	2010F	2011F
Growth (%)					
Total assets	160.6	6.0	31.1	27.3	24.0
Net loans & advances	145.9	-0.5	45.4	34.9	35.0
Customers deposits	146.6	8.8	35.0	30.0	25.0
No of employees	5470	6016	6240	6960	7680
No of domestic branches	211	247	260	290	320
Net earnings	197.3	-31.7	25.4	50.0	52.7
EPS	189.1	-46.1	34.2	40.2	52.7
Asset quality (%)					
NPLs as % of total loans	0.23	0.60	0.70	0.68	0.66
General provision ratio	0.42	0.60	0.65	0.75	0.75
Specific provisions/NPLs	34.1	19.4	18.6	19.4	18.3
Total provisions/ NPLs	218.1	120.8	111.2	129.5	131.7
Margin (%)					
Avg int rate on loans	9.7	13.3	11.6	11.8	11.9
Avg cost of funds	5.9	10.7	8.0	8.1	8.2
Net interest spread	3.8	2.7	3.6	3.7	3.8
Net interest margin	2.6	0.3	2.0	2.3	2.8
Profitability/ Performance (%)					
Non-int income/total income	52.8	53.3	56.5	51.5	46.2
Cost/income ratio	30.4	51.8	44.5	39.2	33.3
ROA (%)	3.1	1.4	1.6	1.8	2.1
ROE (%)	27.4	12.6	14.4	17.6	22.0
Liquidity (%)					
Customer LDR	71.2	64.6	70.1	72.7	78.5
Interbank LDR	91.6	92.3	93.6	94.7	95.3
Total LDR	73.9	71.7	75.2	76.3	80.8
CAR (%)	11.07	12.16			
Valuation					
EPS (VND)	3,463	1,866	2,504	3,512	5,362
P/E (x)	10.0	18.6	13.9	9.9	6.5
BV (VND)	14,366	15,166	18,230	21,741	27,103
P/B (x)	2.4	2.3	1.9	1.6	1.3
Cash dividend (VND)	nil	nil	nil	nil	nil
Cash dividend yield (%)	n/a	n/a	n/a	n/a	n/a

Source: Company data

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Vinamilk

Defensive yet Attractive

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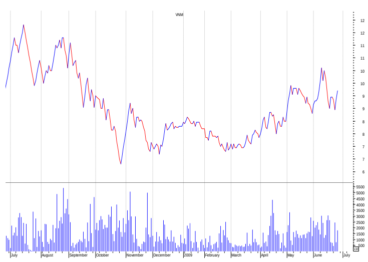
Price	**VND 97,000**
VN Index	**453.8**

Historical Chart



Performance	1m	3m	6m
Absolute (%)	7.8	21.3	17.6
Relative (%)	-2.0	-40.3	-32.3

Stock Information

Ticker code	**VNM**
Market cap (VNDbn)	17,002
52-week high (VND)	123,000
52-week low (VND)	67,000
Shares issued (m)	175.3
6m avg d.vol (VNDbn)	10.7
Free float (%)	27.4
Major shareholders (%)	
	State (47.6)
	F&N dairy (10.6)
	Deutsche Bank AG (5.5)
	Dragon Capital Funds (8.9)

Key Indicators

ROE (%)	28.1
Net gearing (%)	Net cash
NTA (S$)	27,167
Interest cover (x)	46.2

A dominant player in domestic dairy market

The Group has established a dominant position in the domestic dairy market with around 45.0% of the market share in liquid milk and 85.0% of the market share in yoghurt and condensed milk in 2008. These three segments accounted for 68.0% of its total revenue. Besides that, its powdered milk-infant cereals segment accounted for around 29.0% of its total revenue in 2008. The management plans to expand the market share of this segment from 15.0% in 2008 to 30.0% in 2009.

Riding on the rising domestic consumption theme

Rapid urbanisation has boosted the domestic demand for dairy products given the change in the consumption pattern. Per capita milk consumption had increased from 3.8kg in 2001 to 9.0kg in 2007, and is expected to rise to 12.0kg in 2010 and 20.0kg in 2020. Among the dairy products, the fresh milk and powdered milk segments are expected to enjoy the highest growth rates

Strong cash flow to support capacity expansion

The Group is planning to build a mega factory (costing VND 1,330.0bn) in Binh Duong Province to meet the growing demand. This project will be financed internally by Vinamilk. As of 31 March 2009, Vinamilk has a net cash position of VND970.2bn.

Benefiting from the stability of milk input prices

More than 75.0% of its raw materials are milk powder that is mainly imported from Australia and New Zealand. The Group has obtained long-term contracts with Fonterra and Hoogwegt, the two major suppliers, at a very competitive price. Besides that, Vinamilk has secured around 40% of domestic fresh milk inputs. We believe that the stability of milk input prices is an essential key for managing its production costs.

Trading at lower PER than its regional peers

The stock is currently trading at an expected PER of 12.3x, which is relatively cheap compared to an average expected PER of 15.2x of its regional peers. We believe that its potential listing on the Singapore exchange could serve as a catalyst to narrow the valuation gap. However, the management noted that the timing of the listing will largely depend on the recovery of the regional equity markets.

Year End Dec 31	2006	2007	2008	2009F	2010F
Sales (VND bn)	6,245.6	6,538.0	8,209.0	9,131.8	10,315.8
Pre-tax (VND bn)	662.8	955.4	1,371.3	1,775.5	1,797.1
Net profit (VND bn)	659.9	963.4	1,250.1	1,385.0	1,343.6
EPS (VND)	3,963	5,538	7,132	7,902	7,666
EPS growth (%)	8.4	39.8	28.8	10.8	-3.0
PER (x)	24.5	17.5	13.6	12.3	12.7
EV/EBITDA (x)	22.6	21.3	11.6	9.8	8.7
Yield (%)	1.9	3.0	3.0	3.1	3.1

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Profit and loss

YE Dec (VND bn)	2006	2007	2008	2009F	2010F
Sales	6,245.6	6,538.0	8,209.0	9,131.8	10,315.8
Cost of goods sold excl Dep.	-4,576.9	-4,705.5	-5,432.5	-6,032.1	-6,753.4
Depreciation	-101.2	-130.8	-178.4	-228.8	-261.4
Gross profit	1,567.5	1,701.7	2,598.0	2,871.0	3,301.1
Operating expenses	-972.3	-1,068.6	-1,350.1	-1,421.0	-1,722.7
EBIT	595.2	633.1	1,247.9	1,450.0	1,578.3
Net financial income (loss)	25.0	232.0	67.2	104.2	72.4
Net income (loss) JV+Assoc.			-74.0	113.4	
Net extraordinaries	42.5	90.3	130.2	108.0	146.3
Pretax profit	662.8	955.4	1,371.3	1,775.5	1,797.1
Income taxes	-2.9	8.0	-122.6	-388.5	-449.3
Minority interests			1.4	-2.0	-4.2
Net profit	659.9	963.4	1,250.1	1,385.0	1,343.6
EBITDA	696.4	763.9	1,426.3	1,678.7	1,839.7
EPS (VND)	3,963	5,538	7,132	7,902	7,666

Source: Company data, Kim Eng estimates

Cash flow

YE Dec (VND bn)	2006	2007	2008	2009F	2010F
Operating cash flow	403.6	392.6	1,091.2	1,434.4	1,789.3
Net profit	659.9	963.4	1,250.1	1,385.0	1,343.6
Depreciation	101.2	130.8	178.4	228.8	261.4
Change in working capital	-480.1	-680.4	-213.9	-97.2	184.4
Others	122.5	-21.1	-123.4	-82.2	0.0
Investment cash flow	-497.8	-1,127.1	-424.6	-651.1	-808.2
Net capex	-415.8	-705.7	-468.4	-791.8	-808.2
Change in investment	-87.9	-334.9	110.8	156.5	
Change in other assets	5.9	-86.5	-67.1	-15.8	
Cash flow after Investment	-94.3	-734.5	666.6	783.3	981.1
Financing cash flow	-249.1	695.4	-445.8	-449.0	-655.8
Change in share capital		1,173.5			
Net change in debt	37.6	-17.9	168.3	59.3	-130.0
Others	4.3	78.0	66.7	17.6	
Div paid	-291.0	-538.2	-680.7	-525.8	-525.8
Net cash flow	-343.4	-39.1	220.8	334.4	325.3

Source: Company data, Kim Eng estimates

Balance sheet

YE Dec (VND bn)	2006	2007	2008	2009F	2010F
Total assets	3,600.5	5,425.1	5,967.0	7,206.5	7,960.3
Current assets	1,996.4	3,172.4	3,187.6	3,851.5	4,058.5
Cash	156.9	117.8	338.7	673.0	998.3
ST investment	306.7	654.5	374.0	220.7	220.7
Inventories	965.8	1,669.9	1,775.3	2,008.7	1,904.2
Trade receivable	474.4	584.3	605.5	905.4	891.6
Others	92.5	145.9	94.1	43.6	43.6
Other assets	1,604.1	2,252.7	2,779.4	3,355.0	3,901.8
LT Investment	413.9	401.0	570.7	567.5	567.5
Net fix assets	1,072.0	1,646.9	1,936.9	2,500.0	3,046.8
Others	118.3	204.7	271.8	287.5	287.5
Total liabilities	862.2	1,073.2	1,154.4	1,616.7	1,552.7
Current liabilities	754.4	933.4	972.5	1,419.9	1,355.9
Trade payable	439.2	627.1	498.5	760.8	826.8
ST borrowings	17.9	10.0	188.2	250.0	120.0
Others	297.3	296.3	285.8	409.1	409.1
Long-term liabilities	107.8	139.9	181.9	196.8	196.8
Long-term debts	42.3	32.4	22.4	19.9	19.9
Others	65.4	107.5	159.5	176.8	176.8
Shareholders' equity	2,738.4	4,351.9	4,812.5	5,589.8	6,407.6
Paid in capital	1,644.2	2,817.7	2,817.7	2,817.7	2,817.7
Reserve	1,039.5	1,406.6	1,848.0	2,662.5	3,480.3
Other provisions	54.7	91.6	96.2	58.8	58.8
Minority interests		35.9	50.6	50.9	50.9

Source: Company data, Kim Eng estimates

Key ratios

YE Dec	2006	2007	2008	2009F	2010F
Growth (YoY %)					
Sales	10.8	4.7	25.6	11.2	13.0
EBIT	13.5	6.4	97.1	16.2	8.9
EBITDA	15.7	9.7	86.7	17.7	9.6
Net profit	9.0	46.0	29.8	10.8	-3.0
EPS	8.4	39.8	28.8	10.8	-3.0
Profitability (%)					
Gross margin	25.1	26.0	31.6	31.4	32.0
EBIT margin	9.5	9.7	15.2	15.9	15.3
EBITDA margin	11.2	11.7	17.4	18.4	17.8
Net margin	10.6	14.7	15.2	15.2	13.0
ROA	18.2	21.6	22.4	21.2	18.0
ROE	27.3	27.9	28.1	27.3	22.8
Stability					
Gross debt/equity (%)	2.2	1.0	4.5	4.9	2.2
Net debt/equity (%)	-15.0	-17.3	-10.8	-11.4	-17.1
Interest coverage (x)	28.1	54.3	46.2	166.5	71.0
Int.&ST debt coverage (x)	16.4	24.7	9.9	6.4	7.6
CFO Interest coverage (x)	19.0	33.6	40.4	164.7	80.5
CFO Int.&ST coverage (x)	11.1	15.3	8.7	6.3	8.6
Current ratio (x)	2.6	3.4	3.3	2.7	3.0
Quick ratio (x)	1.3	1.5	1.4	1.3	1.6
Assets turnover (x)	1.7	1.4	1.4	1.4	1.4
Average inventories (d)	79.9	99.5	112.4	110.3	101.8
Avg. trade receivables (d)	27.2	29.6	26.5	30.2	31.8
Avg. trade payables (d)	27.3	40.2	36.7	36.7	41.3
Net cash (debt) (VND bn)	403.4	730.0	502.0	623.8	1,079.1
Per share data (VND)					
EPS	3,963	5,538	7,132	7,902	7,666
OCFPS	2,423	2,257	6,226	8,184	10,209
BVPS	16,116	24,101	26,619	31,266	35,932
SPS	37,506	37,584	46,835	52,100	58,855
EBITDA/share	4,182	4,391	8,138	9,578	10,496
Cash Div/share	1,814	2,900	2,900	3,000	3,000

Source: Company data, Kim Eng estimates

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Recommendation definitions

Our recommendation is based on the following expected price performance within 12 months:

+15% and above: BUY
-15% to +15%: HOLD
-15% or worse: SELL

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