

# BVF MARKET REPORT

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No.3/2008



Baoviet Fund Management - BVF

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## Global Market – Quarter I/2008

•The US and European Stock Markets have experienced the worst three consecutive months since the second quarter of 2002. S&P 500 index declined by 9.9% in the first quarter of this year. FTSE 100 and FTSE Eurofirst 300 indices suffered the same by reducing to the lowest point over the last 6 years. The MSCI index also decreased by 10%, a significant drop after 5 years enjoying fast recovery. The gloomy situation made investors cautious when making any investment decision.

•The FED has recently organized many auction sale sessions of short-term loans at low interest rate to the commercial banks who are on tight cash to help them overcome the current credit crisis. (On March 28th, 50 bil. USD was sold at an interest rate of 2.615%, the lowest interest rate observed since last December in a loan auction sale). In the first quarter of 2008 only, 260 bil. USD has been injected to the US banking system.

•It is expected that a series of fiscal and monetary measures would be in place to calm down the persistent economic slowdown in US. FED has recently lowered its basic interest rates plus injecting money to liquidate bad loans, and directly intervening financial crisis settlement at Bear Stern bank. However, the basic interest rate is expected to be hardly below 2%.

•The demand for goods from emerging countries has inspired a soar in consumer prices, posing adverse effects on the government efforts in combating inflation.

•The gold price in the middle of March reached a record price of USD1,000/ounce. However, the heat was subsiding in later March when the USD appreciated in value against EUR (remaining at more than USD850/ounce).

## Vietnam Economy- Quarter I/2008

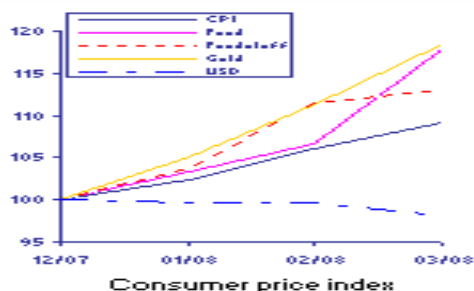
•GDP growth rate in the first quarter of 2008 is estimated at 7.34%, comparatively lower than the annual targeted rate of 8.5% - 9.0%. In order to gain the expected goal, three remaining quarters are required to achieve an average rate of 9.3% - 9.4%. However, this target is considered highly unlikely in the current situation.

•CPI of March increased at month-to-month rate of 2.99%, making the increase rate of CPI to 9.19% as compared to that of December 2007 (16.37% more than that of the same period last year), exceeding the economic growth rate.

•Export turnovers in the first quarter of 2008 stood at 13 bil. USD (equivalent to 22.15% of the annual goal, 21% more than that of the same period last year). Not any month of the first quarter reached 5 bil. USD level. Most major export commodities did not meet the target, growing at very a low rate, such as seafood (10%), electrical and machinery equipments (13.4%), and handicrafts (12%).

•Meanwhile, import turnovers shot up to 20.5 bil. USD in the first quarter, equivalent to 68.7% over that of the same period last year, making the import surplus of 7.36 bil. USD accounting for 56.5% of the total import turnover. The imported car value of the first quarter is four times higher than that of the same period last year.

•FDI in Vietnam in the first quarter recorded above 5.2 bil. USD (rising by 31% as compared to the same period last year). March welcomed 75 new projects with total registered capital of more than 2.6 bil. USD. Investment focus on service sector, followed by industrial and agricultural sectors respectively.





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### Development and analyses of monetary market in March 2008

Monetary market in March 2008 was more stable as compared to that of February thanks to policies worked out by the State Bank of Vietnam to stabilize the market.

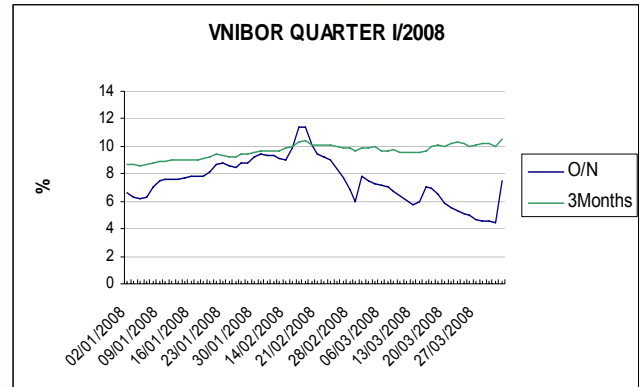
- The State Bank additionally provided a remarkably big amount of cash (approximately 20,000 billion VND in the 2<sup>nd</sup> and 3<sup>rd</sup> weeks at ceiling rate of 9% p.a.) to open market to cope with the shortage of fund from banks (especially joint-stock commercial banks of small scale).

- Besides, as one of a series of measures to curb inflation in 2008, the Prime Minister and the State Bank have decided to transfer the deposits of the State Treasury placed at commercial banks back to the State Bank. This will facilitate monetary policy regulators in controlling the cash flow from state-owned sector; especially when the State Bank needs to withdraw cash from circulation to curb the pressure to increase the credit volume from commercial banks. However, in short term, this move will cause a certain shortage of fund for commercial banks.

- Vietnam Banks Association (VNBA) and bank representatives have agreed to put a ceiling of 11% p.a. to deposit rate, effective from April 1<sup>st</sup> 2008. Rate of each category is set at the discretion of banks and can be adjusted to risk – reward rule, but 6-month deposit is fixed at 10.5% p.a. rate.

The above measures by the State Bank are aimed at curbing inflation and stabilizing the monetary market. The injection of cash to open market by the State Bank with an amount equal to the volume of mandatory 1-week and 2-week treasury bills commercial banks requested to buy has solved the liquidity difficulty of commercial banks.

After the deposit rate has been raised, liquidity of commercial banks has been improved thanks to a



Source: Reuters

large amount of fund mobilized from the residents' idle money. According to VNBA, the working capital after purchasing the mandatory treasury bills of the whole system remains 14,000 bil. dong and is at short-term surplus. This explains why commercial banks did not interest in some biddings held in open market where only a few state-owned banks won the bids though the volume sold by the State Bank was quite big.

Besides banks agreed to cut deposit rate to below 11% p.a., the State Bank will spend 20,000 bil. VND to buy USD to support export enterprises (which means the State Bank will put 20,000 bil. dong in circulation), according to an unofficial source. This move will have certain impacts on short-term interest rates, especially inter-bank rates in the coming time.

The primary target of Vietnam in 2008 is to curb and ensure inflation at a low level. Hence, before circulating more VND to the market through buying back USD, the State Bank needs some measures to withdraw VND first and the transfer of deposit of the State Treasury placed at commercial banks back to the State Bank serves this task. This amount is estimated at 52,000 bil. dong and currently being placed at 5 state-owned commercial banks.

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Though the transfer should be done step by step, and is not expected to have a significant impact to the whole market, some certain influence to deposit rate of the state-owned commercial banks is anticipated.

Interest rates in the monetary markets tend to lower.

<b>Term</b>	<b>Interest rate at the end of March (%)</b>
Overnight	5 – 5.5
01 week	7.5 – 8
02 weeks	8.5 – 9
01 month	10
03 months	11.5 – 12
6 – 12 months	10 – 12

### **Forecast on trend and interest rate in the coming time:**

It can be referred from the moves made by the commercial banks that at the moment their funds are highly stable and some banks have short-term surplus. As a result of a series of moves and policies recently adopted by the State Bank, it is likely that inter-bank interest rates will slightly lower than the current rate (about 10 basic points). After the deposit rate and input expenses of banks have been cut, it is expected that the State Bank will enforce some policies to reduce the currently high lending rates (down to 14% – 15% p.a. for short-term and 15% - 16% p.a. for long-term lending rates by the state-owned commercial banks; and 17% – 18% p.a. for short-term and 20% - 21% p.a. for long-term lending rates by the joint-stock commercial banks).



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### Development and analyses of bond market in March 2008

**Though liquidity of banks have been improved and some banks have short-term surplus, demand for bond is still unchanged** (banks are concerned that possible changes in policies and market fluctuation will lead to their shortage of fund in the coming time). At the moment, demand for bonds is mainly from foreign investors and focuses on short-term government bonds (less than 3 years).

- The State Bank bought USD but this move is to support export enterprises, so foreign investors are still facing difficulty in exchange USD to VND.

- It is estimated that bonds worth approximate 5,000 bil. dong have been bought by foreign investors at the primary market through biddings and issuance guarantees of short-term government bonds (2 and 3 years) held by the State Treasury and Vietnam Development Bank.

- The complex development and wild fluctuation of VND/USD exchange rate (increase to VND16,200/USD1 from VND15,400/USD1) in just more than a week in late March concerned the foreign investors who worried the further depreciation of VND and thus, suspended disbursement.

The above factors have lowered the demand for bond from foreign investors and as a result, transaction volume of bond tended to decrease and bond yield tended to increase slightly.

In the first three weeks of the month, increasing demand for bond kept the yield of the short time to maturity government bond at low level, which can be observed from issuance guarantees and biddings by the State Treasury and the Development Bank (as in the table next column)

Issuing organization	Bid-winning volume (bil. dong)	Bid-winning interest rate (%/ p.a.)	Issuance date
STV-3yrs	300	8.02	12/03/2008
STV-2yrs	3,200	7.50	14/03/2008
STV-7yrs	500	Ceiling rate 8.7	22/03/2008
STV-3yrs	1,000	8.0	22/03/2008
VDB-15yrs	0	Ceiling rate 8.8	11/03/2008
STV-5yrs	0	Ceiling rate 8.5	18/03/2008

Low demand for long time to maturity government bonds kept the yields for these bonds at high level (9.10-9.48% p.a.). Under the current fluctuating market condition, the liquidity of corporate bonds is still low and there was almost no transaction.

### Forecast on trend and interest rate in the coming time:

The yield of short time to maturity government bond is forecast to increase in the short term. However, in medium and long terms, it is possible that bond yield will lower following the lowering trend of VND/USD (though the rate hiked recently as a result of high demand for USD from import enterprises and the policies adopted by the State Bank to raise the exchange rate to support export enterprises and curb increasing import surplus).

In the unstable situation of securities market, liquidity of long time to maturity government bond (more than 10 years) and corporate bond is still low and yield (if available) is high.

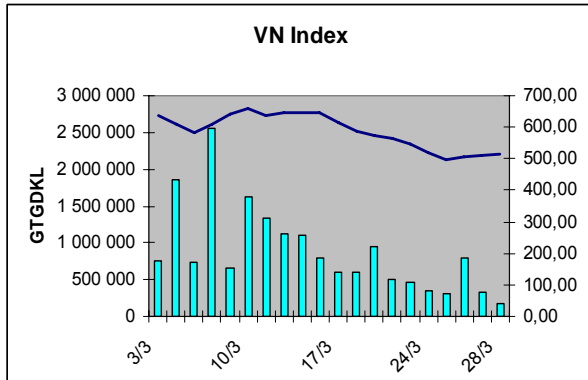


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**Maintaining declining trend of February, stock market continued gloomy in March 2008**

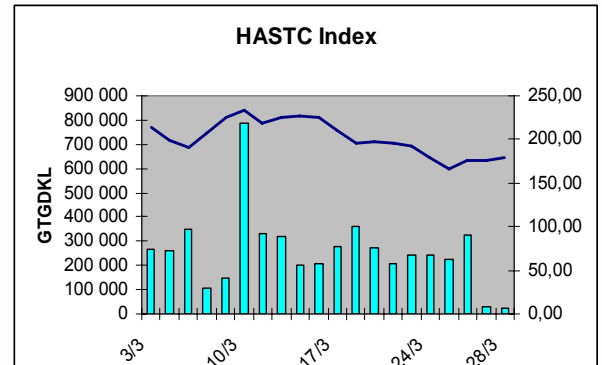
**Hochiminh Stock Exchange: down trend dominates**

As of March 28<sup>th</sup> 2008, VN Index has losen 20% value as compared to the end of February (down to 512.7 points), with the lowest level in the last two years of 496.64 points recorded on March 25<sup>th</sup>. The average transaction volume of March is only 600 bil. dong a day. At the end of the month, there was sign of recovery when VN Index increased three consecutive days from March 26<sup>th</sup> to 28<sup>th</sup>, yet the absolute value increase was not large due to the stock price variation band set down to 1% since March 27<sup>th</sup> by the State Securities Commission.



**HASTC: fluctuated similarly to HOSE**

HASTC Index fluctuated in a rather similar manner to that of HOSE in March. (refer to two graphs in this page). HASTC Index lost 18% value in March and as much as 45% if compared to the early 2008 figure. An average transaction volume per day at HASTC was 259 bil. dong, this figure was especially low at just above 20 bil. on March 27<sup>th</sup> and 28<sup>th</sup> this was due to the stock price variation band reduced down to 2% from 10%, and partly due to wait-and-see attitude taken by investors.



In February and March, foreign investors were active in buying stocks in both two centers with buying amount doubled selling amount.

**IPO  
IPO schedule as of April 07<sup>th</sup>**

Enterprise	Legal Capital	Volume of shares sold	Floor price
Concrete Producing Enterprise (Becamex) 4/4/2008	60 billion	1,500,000 shares	11,000đ/share
Mineral Exploiting Enterprise (Becamex) 4/2/2008	60 billion	1,500,000 shares	11,000đ/share
Hanoi Plastics Company (2 <sup>nd</sup> time) 4/7/2008	65 billion	397,000 shares	25,200đ/share
Vinaconex Glass Fiber Joint-stock Company	10 billion	1,000,000 shares	17-34,000đ/share

In March, two biddings held successfully were the one of Thanh Vang Danh Company (2,466,800 shares with the average bid-winning price of VND31,822/share) and the one of Industrial and Urban Development Joint Stock Company (D2D) (1,683,940 shares with average bid-winning price of VND46,917/share). The IPO for Habeco was not successful when only 12.6% of the stock volume was sold at average bidding price of VND50,015/share.



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### OTC

There was not many changes in OTC market in March. The official decision to increase room for foreign investors have not yet been issued. Stock price of banking and real estates sectors plummeted the most (*Vietcombank share vary in VND58,000 – 60,000 range, losing almost 50% its average bid-winning price, PNB (VND19,000-20,000/share), VPBank(VND18,000-19,000/share), ABBank (VND15,000-16,000/share).*

Though backed by the news that Maybank bought 15% of its outstanding stocks at about 5 times its face value of VND10,000, ABBank shares remained at approximately VND15,000/share. Similarly, supported by the good information of stock bonus of Eximbank, but its share still maintained at VND38,800/share.

There were progresses with shares of steel producers thanks to high profitability level and comparatively big dividend payout. The news Dinh Vu Hai Phong Steel Company plans for 45% payout ratio in cash increased its share to VND43,000 – 45,000/ share and this figure is expected to increase slightly.

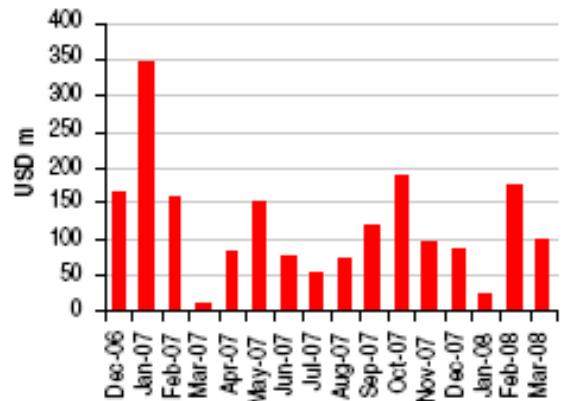
### Market Assessment

#### Advantageous factors

High determination of the Government in maintaining macro economic stability including implementing monetary measures toward anti-inflation and financial market stabilization is regarded as proper and can take effect in medium term.

It has been accessed in a number of reports by international organizations such as ADB, IMF, and HSBC that prospects of Vietnamese economy and enterprises are good.

Foreign investors kept making purchase order though the amount realized was not much. This proves the trust to the market by foreign investors are maintained.



Purchase volume by foreign investors –  
source: Bloomberg

Commercial banks have purchased the mandatory Treasury bills, therefore, the pressure on liquidity of banking system has been alleviated.

The adjustment of stock price variation band helped slow down the declining trend and lessen loss for investors.

The time to publish operation results of the first quarter is coming and this is a good time to choose well performing stocks. Besides, it is now time to publish information on dividend payout and a lot of promising news on operation plans is released from Shareholders' meeting.

#### Disadvantageous factors

World gold price soared up and exceeded USD1,000/ounce mark in middle of March. At the moment, having lowered but it is still as high as USD850/ounce and fluctuating wildly, attracting both attention and funds of the stock investors.



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High prices of essential commodities such as gasoline, construction materials, foodstuff... are causing difficulties to producers, swelling their expenses and shrinking their profitability.

Uninterested attitude of investors to the adjusted stock price variation band directly influences the operations of the market, trading is much less active.

The amount of stock mortgage and repo undertaken by commercial banks and securities companies was not small. In the downward market context, the investors cannot pay back the loans or repurchase the stocks, the mortgage and repo stocks have to be sold which then intensifies the pressure on supply side in the market.

### BVF's Viewpoint

Supported with good information in late March, Vietnam stock market has slowed down its declining trend; stock prices ceiling-hiked in late March and early April. However, liquidity level of the market deteriorates due to the effect from the adjusted stock price variation band measure by the State Securities Commission, especially when investors are certain that the stock will ceiling-hike, they hold back the sales and take a wait-and-see attitude. The market development in April is, therefore, difficult to predict because investors' attitude greatly depend on the decision to widen the variation band of the State Securities Commission as well as timeliness and accuracy of the macroeconomic information and corporate news released. 1<sup>st</sup> quarter performance results of the listed companies will help boost up the market but is not expected to trigger big impact on the share price.

There are still difficulties as to the macro economy but the situation is not too bad and Vietnamese economy is expected to pick up at the year end.

The measures taken by the Government to tighten credit and public expenditures begin to take effect as the interest rates have been stabilized and this is a good signal of more sustainable development of the stock market in future.

The supply volume in the OTC market is still big when majority of losing investors sell their shares and leave the market while those investors who want to buy are still waiting for lower prices. Since there is not yet clear transaction regulations in place, majority of OTC investors are individuals, the liquidity of this market, therefore, is being threatened.

It is forecast that in April, stocks of steel companies and consumer goods companies will attract investors, stocks of financial companies, banks, construction companies, and real estates developers will discontinue its depreciation. Majority of companies will release profit and dividend figures, therefore, it is good time for long-term investors to buy highly potential stocks, and for investment funds to restructure its portfolio.

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