

BVF MARKET REPORT

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Baoviet Fund Management - BVF

BVF MARKET REPORT NO.4/2008



Global Market, Apr 08

The International Monetary Fund – IMF – considers the US economy to be weak and on the verge of crisis. In support of this conclusion, IMF bases on the fact that USD has depreciated about 25% of its value as compared to its value at the beginning of 2002, and seems to be on down trend in the coming time. IMF projects the global economy growth for 2008 is at 3.7%, down from an earlier estimate of 4.2 % and lower by 1.3% points from 2007's pace of 5%.

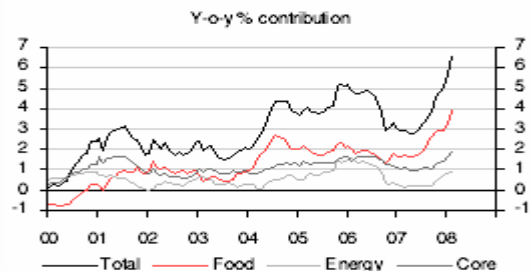
US Securities Market ended April with some unexpected outcomes when quite a few corporations released good business results and Q1 08 economic growth exceeded forecasts, however, uncertainties are still ahead.

Against the backdrop that oil price reached a record price of nearly USD120/barrel, Asia Pacific countries met to find solutions to enhance energy security and boost up energy investments. Asia is a big consumer of oil when it is guzzles more than 40% of the world energy consumption. The solutions include : enhancing the effectiveness in using oil, researching for environment-friendly oil substitutes, inventing new clean energies, constructing trans-nation oil pipeline... in an attempt to reduce dependence on the Middle East countries.

European Central Bank (ECB) stated European inflation in April rose at a slower speed than expected, likewise the economic growth of the Euro-zone. Inflation of Euro-zone countries increases 3.3% y-o-y in Apr against the Mar figure of 3.6% y-o-y. (ECB targets a middle-term inflation rate of below 2%). The European Committee forecasted Euro-zone economic growth of 1.7% and 1.5% in 2008 and 2009, respectively.

Vietnam's Economy, Apr 08

The Consumer Price Index (CPI) in Apr increased 2.2% month-to-month and is 11.6% higher than Dec 07 figure (the highest rate in the last 8 years). The speed of consumer price hike has slowed down, this, however, is mostly thanks to the government policy of curbing price of foodstuff, consumption goods, and raw materials till the end of June 2008.



Export value nationwide in Apr 08 reached USD5.1bn, a month-to-month increase of 5.6%, bringing the total export value in the first 4 months to USD18.26bn, an y-o-y increase of 27.7% and to a new high.

However, since imports continue to outpace exports, the trade deficit is much higher y-o-y in both absolute value (USD11,100mio against USD2,860mio), and import/export growth ratio (60.8% against 20%). The bulk of the rise is explained by a surge in the prices of steel, oil, automobiles, fertilizers and cattle food.

- FDI continues to stay high in both registered and realized capital terms. Foreign invested areas still plays an important role in the economy in general.

- Fiscal revenues are high at 38.6% of the budgeted year target. Revenues from import-export activities, personal income taxes, and land and housing related revenues are even higher at 45.3%, 46.3%, and 47.5%, respectively, of the year targets.



BVF MARKET REPORT NO.4/2008

Development and analyses of monetary market in Apr 08

The Ministry of Finance and the State Bank of Vietnam (SBV) jointly decided to transfer VND52,778bn currently deposited at State-owned commercial banks (SOBCs) to branches of the SBV, as regulated in the Laws of SBV. As a result, SOBCs will face the shortage of VND25,000bn, 2.5 times higher the funds that these banks spent to buy compulsorily SBV treasure bills on March, 17th 2008. For these reasons, while contemporarily surplus in working capital, the SOCBs still draw funds back and limit their lending to joint stock commercial banks to enhance their liquidity.

In the middle of this month, SBV injected VND46,000bn into circulation via open market operations but for a very short term (7 days, ceiling interest rate of 9%p.a.), maintaining its monetary tightening policy.

To meet the contemporary illiquidity issues, only short term interest rates (overnight to 3-month terms) fluctuated this time, different from the interest rate volatility in Nov 07 and late Feb 08. Other longer term interest rates still cling near the ceiling rates set by SBV and Vietnam Banks Association. Breaking of the interest rate ceiling occurred only when banks tried to match their lending with the funds mobilized. In these cases, 06 month to 12 month terms interest rates swung in the range of 12 – 14% p.a.

On April 7th, 2008, Prime Minister required SBV to remove the cap on deposit interest rate, quoting it unnecessary when all the VNBA member banks have agreed upon a similar range of interest rates.

The inter-bank market is still overheating, the attempt to pump money into the market through open market operations of SBV has not yet cooled down the market since the term of only 7 days is too short to have an effect.

The interest rates hiked from 3% (06-12 month terms) to 13% (overnight) compared to that of last month, as follows:

Term	Interest rates at the end of March	Interest rates at the end of April
Overnight	5-5.5% p.a.	17-18% p.a.
01- 02 weeks	7.5-9% p.a.	20-22% p.a.
01 month	10% p.a.	20-21% p.a.
03 months	11.5-12% p.a.	17-18% p.a.
06-12 months	10-12% p.a.	13-16% p.a.

Forecast on trends and interest rates in the coming time

The monetary market is still overheating unless SBV and concerned authorities take flexible actions. Due to the time lag effect of the monetary policies, it is forecast that interest rate volatility will continue until after Q2 08 when the market should become more stable and an appropriate interest rate level is set up.

BVF MARKET REPORT NO.4/2008



Development and analyses of bond market in April 2008

The liquidity of banks in April is very low due to the instabilities of the macroeconomics, the fluctuation of USD/VND exchange rate, the policies of the State and the volatility of the monetary market.

Since the priority of Vietnam during the coming time is to curb the inflation, the SBV limits buying of USD. It is consequently difficult for foreign investors (mostly new investment funds) to exchange USD to VND.

The fluctuation and complexity of exchange rates concerns the foreign investors who then suspend their disbursement to bond market.

Investors have to reconsider the opportunity cost and postpone their investment to bonds upon the uncertainties of the monetary market.

The unfavorable macroeconomic news of Vietnam as well as of the world together with high inflation especially hiking prices of such essential commodities as oil and rice have negative impacts on investors, as a result they have to restructure their investment portfolios and strategies.

These above factors put bond market in a gloomy scenario with very low demand for bonds from foreign investors (except new investment funds but with small volumes) while the selling volume in all tenures is very big (especially those of short tenures).

Disadvantageous development of the monetary market and climbing Interbank interest rate inflate the opportunity cost for bond investors and discourage commercial banks and finance institutions from investing in bonds.

These all resulted in the low volume of bond transactions which were mainly made by insurance companies. The bond yields-to-maturity of all tenures rose sharply compared to that of Mar 08 with details as follows :

Time to maturity	1st week Apr 08	4th week Apr 08
1 year	7.76% p.a.	8.514% p.a.
5 years	8.89% p.a.	10.06% p.a.
10 years	9.48% p.a.	10.307% p.a.
15 years	9.72% p.a.	10.814% p.a.

The recent biddings and guarantees for issuance of both government and corporate bonds were not successful due to the current yields well above yield cap set by MOF. It is forecasted that MOF will hardly raise the ceiling of bond yield since MOF has to cut off expenditures, public investments and has not yet demands for funds.

Liquidity of corporate bonds is so low that its yield escalated the most among all bond types (EVN and Vinashin bonds of 10 years tenure with 9 years to maturity are sold at 14% yield)

Forecast on bond yield in the coming time:

Against the backdrop of unfavorable monetary market, gloomy macroeconomic situation, few if any improvements shown in inflation curbing and regulating policies of related authorities, the bond yield is unlikely to drop. However, as the bond yields are already high, yield to maturity is expected to rise slightly.



BVF MARKET REPORT NO.4/2008

Stock market continued gloomy in April 2008

HOSE – Volatility

Maintaining rising trends of the last month, the stock market at the start of the month was quite active, however, Vn-index ended the month at almost the same level due to a marginal price variation band of 2%; the highest level VN-index reached in April is 552.05 points, the lowest is 515.88 points, with daily average transaction value of VND342bn.

At the stock exchange, beside the declining trend of the whole market, there is groupings of trends among the blue-chips stock:

Stocks of foodstuff sector like VNM, TAC hiked (VNM increased 30%, TAC 11% month-to-month)

Stocks of rubber producers like DPR, TRC were on high demands thanks to the rise in the price of rubber

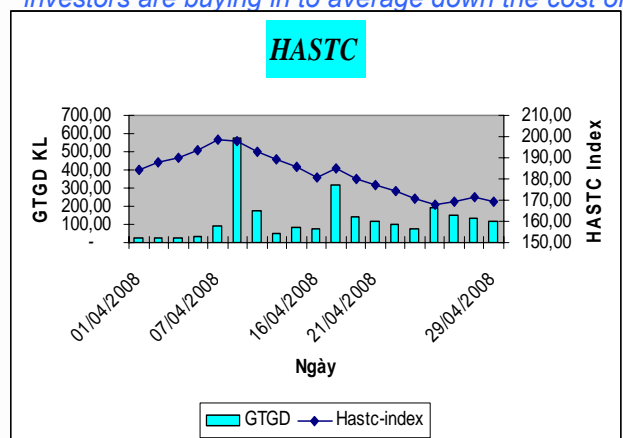
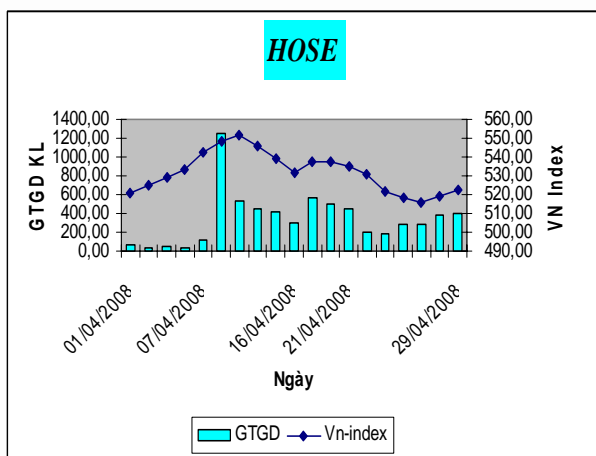
Blue-chips like SSI, STB, FPT were sold in a bulk at floor prices.

HASTC – declining triangle

Hastc- Index better reflects the declining trend in comparison to VN-index since in two thirds of 19 transaction days, it declined consecutively with daily average transaction values of a mere VND131bn. At the end of April, Hastc Index had dropped to 169.11 points, nearing the aiding point of 150.

It is worth noticing that in Hastc, the stocks of floor tile producers increased proportionally to the rise of tile price which has increased 3-4 times. Those companies of Viglacera group like Ba Hien (BHV), Dong Trieu (DTC), Tu Son (VTS) singled out with rising stock prices against the general market down trend.

The trading volume of foreign investors in two stock exchanges was quite high with buying volume 5 times higher than selling volume in Hose and 2.5 times higher in Hastc. Outstandingly, foreign investors have been trading actively against the down trend of the market. It can be interpreted that foreign investors are collecting good stocks at cheap price and institutional investors are buying in to average down the cost of





BVF MARKET REPORT NO.4/2008

IPO

In April, 5 IPOs held are: Song Da Joint Stock Company no. 3, CMC Joint Stock Company, Ha Noi Plastic Ltd. Company, Vang Danh Coal Company, Mineral Exploiting Enterprise (belonging to Becamex), Concrete Enterprise (belonging to Becamex). The average bid-winning price was equal or just a little higher than the floor price, confirming the darkness of OTC market.

OTC

In the first month of the 2nd quarter, almost all companies organized their shareholders' meetings reporting 07 business results and announcing 08 plans. It is good time shareholders review and restructure their portfolio. However, affected by gloomy listed market, OTC market remains quiet.

Bank and real estate stocks continue to decline slightly or remain the same but with lowered liquidity.

The shareholder meetings of Binh Chanh Housing Joint Stock company (BCCI) and Vietcombank were quite tense when the shareholders strongly

opposed the profit distribution and listing plan, especially when their share prices have plummeted in the OTC market; BCCI shares are quoted at VND33,000 losing 60% in value as compared to that of Oct 07 and VCB share is VND51,000 equal only to half of its average IPO. They are two typical stocks in the banking and real estate arenas.

In the down trend of the official market, unlisted companies all rescheduled their listing plans and are taking a wait-and-see attitude.

The management of Hasc informed they are testing trading OTC stocks on the official trading floor and it is likely that from Jun 08, some major stocks of finance, banking, and insurance companies will be traded on Hasc; this may help improve the low liquidity of the current OTC market.

Market assessment

Advantageous factors

Being overheated in late March, VND/USD exchange rates in both official and free markets became stable in Apr at USD1 ≈ VND16,000

The world gold price approximated USD900/ounce and oil price USD115 USD/barrel

Asia Development Bank in its Apr 08 report holds that the policies adopted by Vietnamese Government in the meantime are appropriate and necessary, and forecasted inflation will be slowing down in late 08 and 09.

Low P/E ratio of Vietnam companies is rated in HSBC latest report as attractive and a buying opportunity.

On April 3rd 2008, the **State Security Commission** decided to plus ±1% into the stock price variation band in both stock exchanges with effect from April 7th making the stock price variation band of Hose 2% and of Hasc 3%.

The Economist in late Apr 08 edition views that though difficulties still exist, Vietnam, with growth potential in all economic areas, is set to take off.

Apr 08 saw 2.2% increase in PCI, the lowest in the first 4 months of the year thanks to Government policies to curb inflation, which helped calm down investors.



BVF MARKET REPORT NO.4/2008

Disadvantageous factors

The threats of US economic and credit crisis will not diminish until the end of 2008. Banks follow suit one another to announce 07 losses and have not yet produced any brighter 08 forecast.

The Vietnam trade deficit of Apr 08 amounted to about USD2,750mio, making total trade deficit of the first four months 3.9 times higher y-o-y.

HSBC anticipated that uncertainty of Vietnam stock market may be prolonged for some more months. There will be some more changes in financial and monetary policies.

The Prime Minister has prioritized inflation control and plans to reduce the overall growth target for 2008 to 6,5% -7%

BVF's Viewpoint

Thanks to the strict policies that the Government had adopted, inflation's rising speed in April slowed remarkably down compared to the previous 3 months. However, this is mostly because the Government prohibits raising prices of essential commodities till end of Jun 08, after which time the situation will be unpredictable. Hence, May 08 is an important landmark when inflation is not yet under complete control and the pressure to raise prices for manufacturers is sizable.

In the shareholder meetings season in Mar and Apr 08, almost all companies had organized meetings and released their 07 business performance results, however, they were quite cautious in 08 business forecast in the current difficult economic settings.

There is a general consensus among commercial banks that the current ceiling for deposit interest rate is set at 12% p.a. Otherwise, another competition in raising deposit interest rate by banks may again hard hit the ailing stock market.

In such a difficult market situation, stocks of manufacturing sector will have advantages over their counterparts in service areas (banks, finance...). The investors will be attracted to stocks of those companies manufacturing essential commodities, exploring for raw materials and construction materials. Natural rubber producers such as Dong Phu (DPR), Tay Ninh (TRC)... have advantages because they are not affected by either inflation or rising input expenses while output prices are increasing with stable buyers of China.

Besides, companies in electricity and water industry are charming investors in the meantime. However, they are State-owned, so there is risk that retail prices will be ruled on in case the Government attempts to curb inflation.

One thing note-worthy is that it is at annual shareholder meetings that we can closely assess the capabilities of the company management, investors should take the opportunities to find those companies with the management of good quality, high devotion, and transparent towards the shareholders.

BVF MARKET REPORT NO.4/2008



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