
VIETNAM

COUNTRY REPORT



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ASIAN SECURITIES FORUM
OSAKA, JAPAN
September 2011

VIETNAM

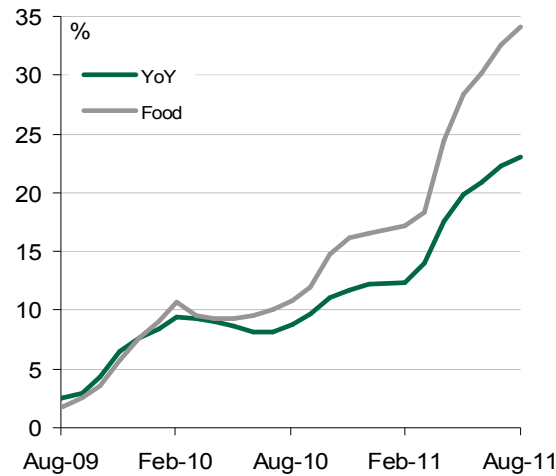
**ECONOMIC PERFORMANCE AND
TREND**

MACRO SYMPTOMS

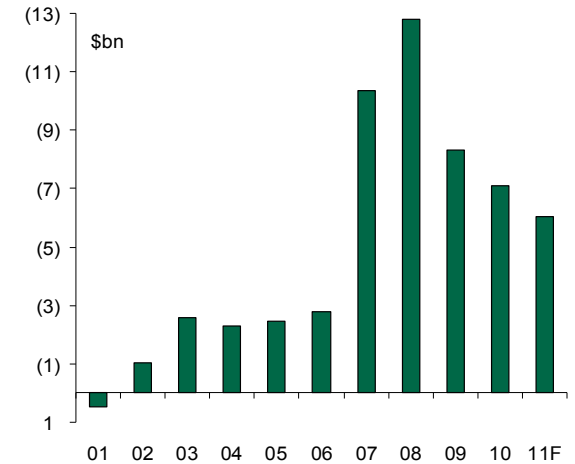


- Vietnam's "Next Tiger" scenario has taken some serious hits
- Inflation, approaching 30% for second time in three years, is the main problem
- Trade deficit is dropping but analysts view it as still high
- Chronic currency weakness: VND -35% since 2006, including 7.2% deval in Feb
- Lending rates above 20% once again in bid to tame inflation, support VND

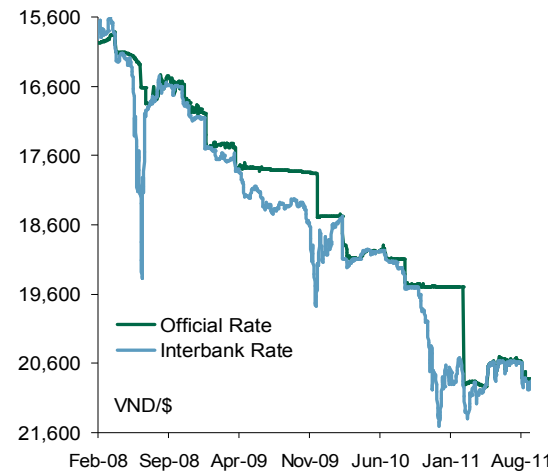
INFLATION



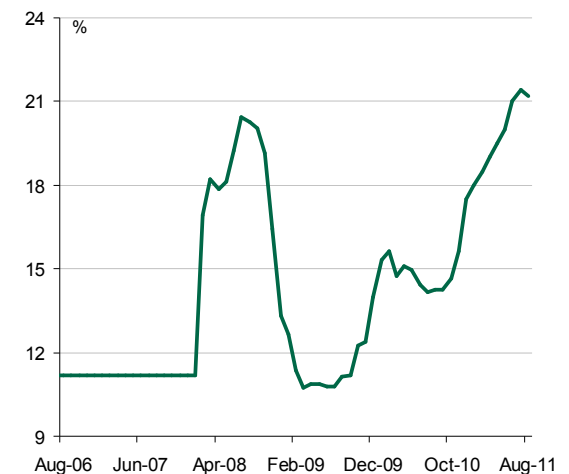
TRADE DEFICIT



CURRENCY



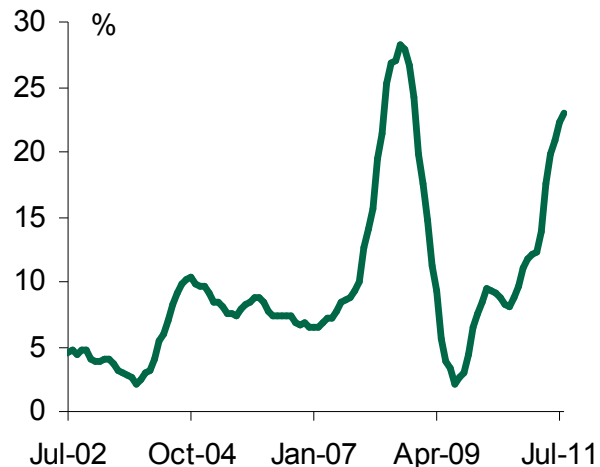
LENDING RATES



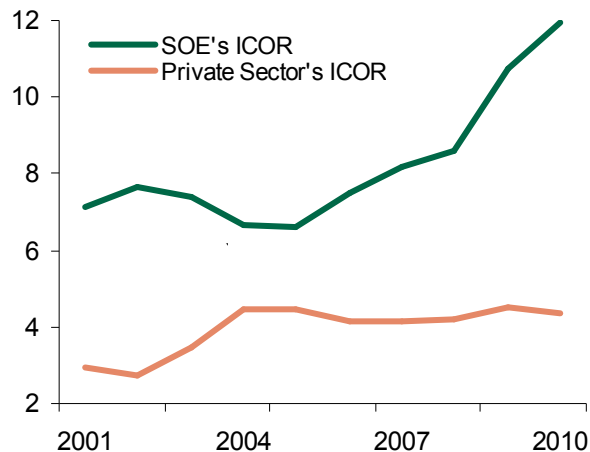
TRIGGERS TO REFORM



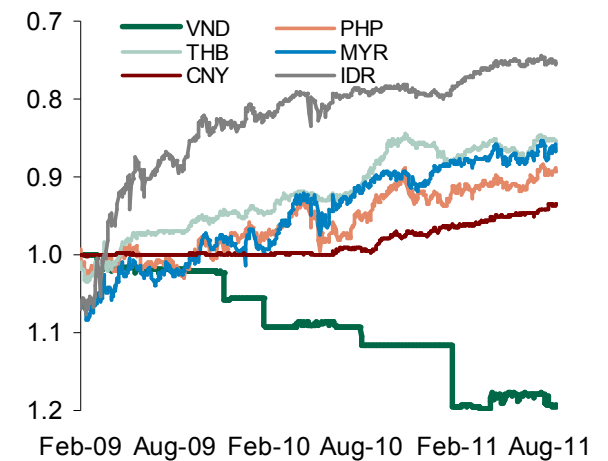
INFLATION (YOY)



SOE's ICOR



CURRENCY



- Inflation reached 28% yoy in June 2008, and probably hit 20% yoy in 2011. Inflation has become the main topic for discussion in National Assembly, and all senior government meetings.
- Triggered by the collapse of Vinashin on its \$4.6bn debt, public started to pay attention to SOE's inefficient investment with ICOR ca 12x in 2010 vs 6x in early 2000's (and 5x for private sector).
- VND is the only currency in Asia which lost value against the USD in 2009 and 2010. Depreciation had fuelled inflation
- The three factors above triggered tremendous political pressure to reform the economy. The reform process has started right after the Party Congress Meeting in Feb 2011.

MACRO FORECASTS



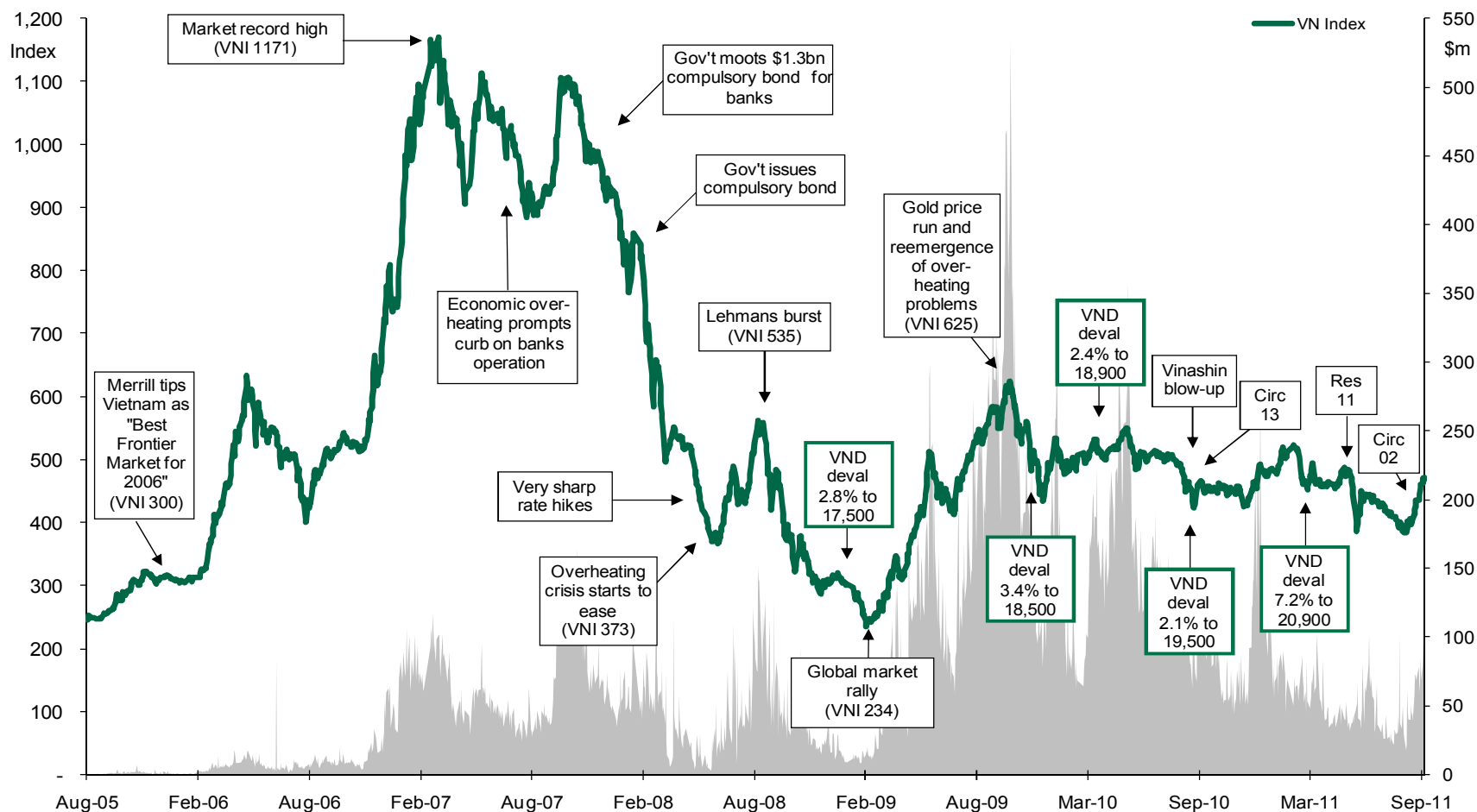
	unit	2008	2009	2010E	2011F	2012F
Real GDP Growth	%	6.3	5.2	6.8	5.8	6.4
Nominal GDP	\$bn	88.0	88.9	95.7	116.6	129.8
CPI	%	22.4	6.5	11.8	19.8	9.7
Exports (cif)	\$bn	62.7	57.1	72.2	93.9	118.7
Imports (cif)	\$bn	79.8	68.9	84.8	104.5	126.5
Trade Balance	\$bn	(17.1)	(11.8)	(12.6)	(10.7)	(7.7)
FDI Approvals	\$bn	63.6	12.0	19.0	14.0	14.0
FDI Disbursed	\$bn	9.6	7.6	8.0	8.2	8.8
IP Growth	%	7.4	7.1	9.4	8.8	9.0
VND (Interbank)	\$1	16,800	18,500	20,700	20,900	21,500

- Rationalized policy regime, as SOE and financial-sector reforms pursued, monetary/fiscal discipline imposed
- Despite reform, growth will remain at 6-6.5% GDP, but with more stability
- Exports will improve in quantity and quality as FDI continues
- Trade deficit will flatten / fall, especially vs GDP, while remittance, exports, capital flows increase
- Inflation and currency will come round after difficult 1H11, as better macro management takes hold

VIETNAM EQUITY MARKET

PERFORMANCE AND REGULATION CHANGES

PERFORMANCE



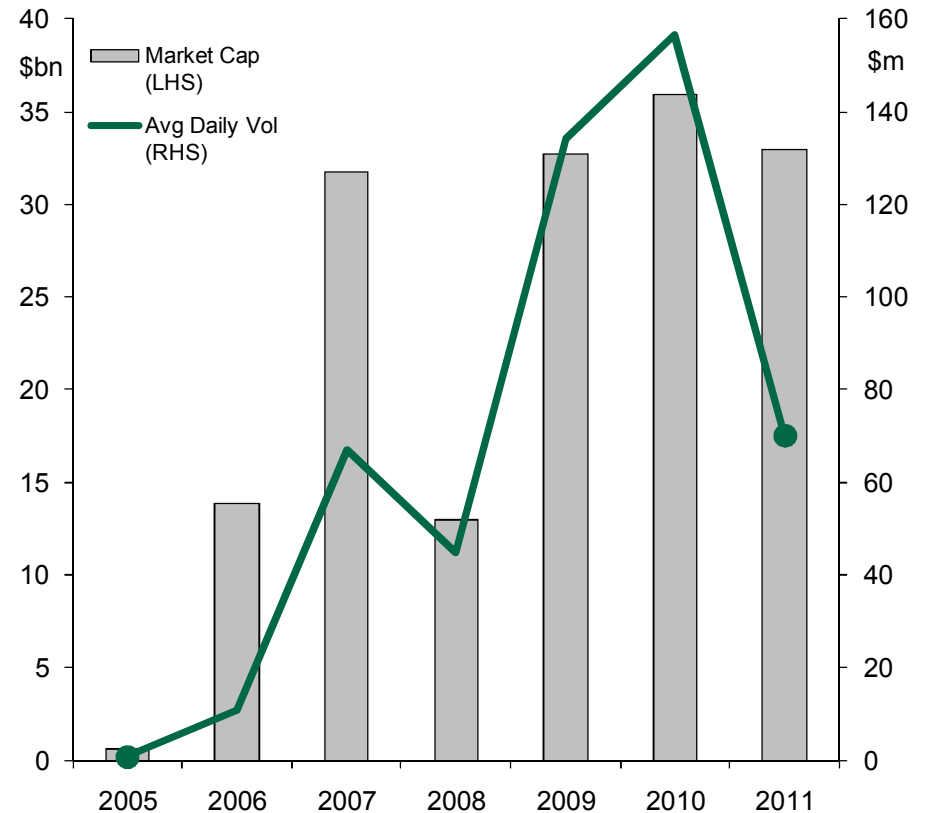
- 2009 - Outperformed EMs through global deflation until overheating and currency woes took some steam out
- 2010 - Macro concerns and huge statutory capital raisings by banks held market back while peers soared
- 2011 - Aggressive monetary / fiscal tightening has further pressured market, but valuations now very cheap

DEVELOPMENT



- Rapid growth since 2005 has made market a serious financial institution.
- Main damper in 2010 was \$5-6bn of new issuance, but this showed viability as fund-mobilizing platform.
- Market has overall stalled in 2011 on economic woes; yet recently bounced back sharply on improved macro indicators.
- Market integrity is focused, leading to stricter regulations on public disclosure.
- Multiple account, margin and intraday trading now formally allowed.
- Aadjusted free-float Index - VN30 - will launch end 2011, milestone for derivative mechanism.
- Open-ending of domestic funds impends

MARKET EXPANSION, 2005-11YTD



	2005	2006	2007	2008	2009	2010	2011	Ch
VNI - VND	308	752	927	316	495	485	425	38.0%
VNI - USD	308	746	929	289	426	396	353	14.6%
No of Co's	38	195	253	342	457	647	686	17.1x

FORECASTS AND VALUATIONS



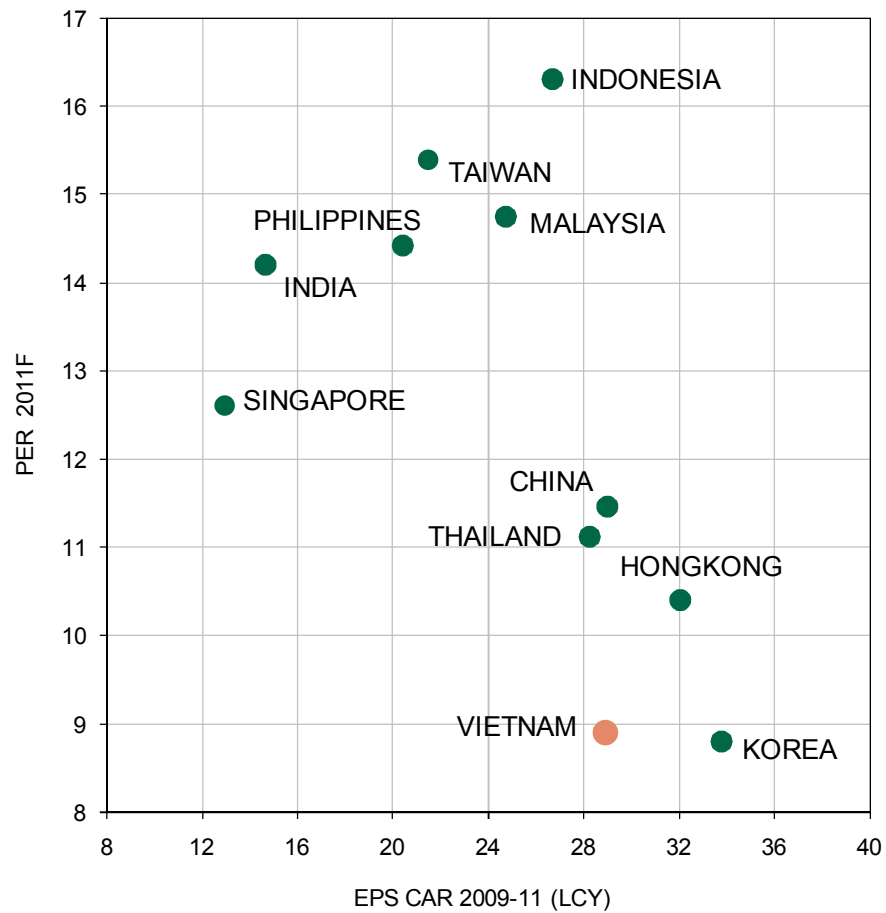
31 AUG - VNI 425	2009	2010	2011F	2012F
P/E (x)	12.1	9.8	8.9	7.4
EPS Growth (%)	63.5	20.1	9.1	19.6
PEG (x)	0.2	0.5	1.0	0.4
Sales Growth (%)	30.7	36.7	23.2	23.4
EBIT Growth (%)	64.8	27.4	28.5	26.4
PBT Growth (%)	77.2	32.8	18.1	22.1
NPAT Growth (%)	72.2	29.3	17.1	21.0
Net DER (x)	0.4	0.5	0.5	0.4
ROE (%)	22.0	21.4	19.1	19.6
PBR (x)	1.9	1.8	1.6	1.4
Yield (%)	5.4	6.2	5.8	5.8

- 2010: Buoyant revenues, but core margins shrank; good non-core results, particularly from divestment of affiliates, restored situation at PBT level, though end of tax holidays nipped NPAT
- 2011: Difficulties at property and non-bank financial companies offset by ongoing healthy results from domestic consumptions and commodities; but still profit growth slows considerably
- 2012: More normalized year - P&L largely follows top line

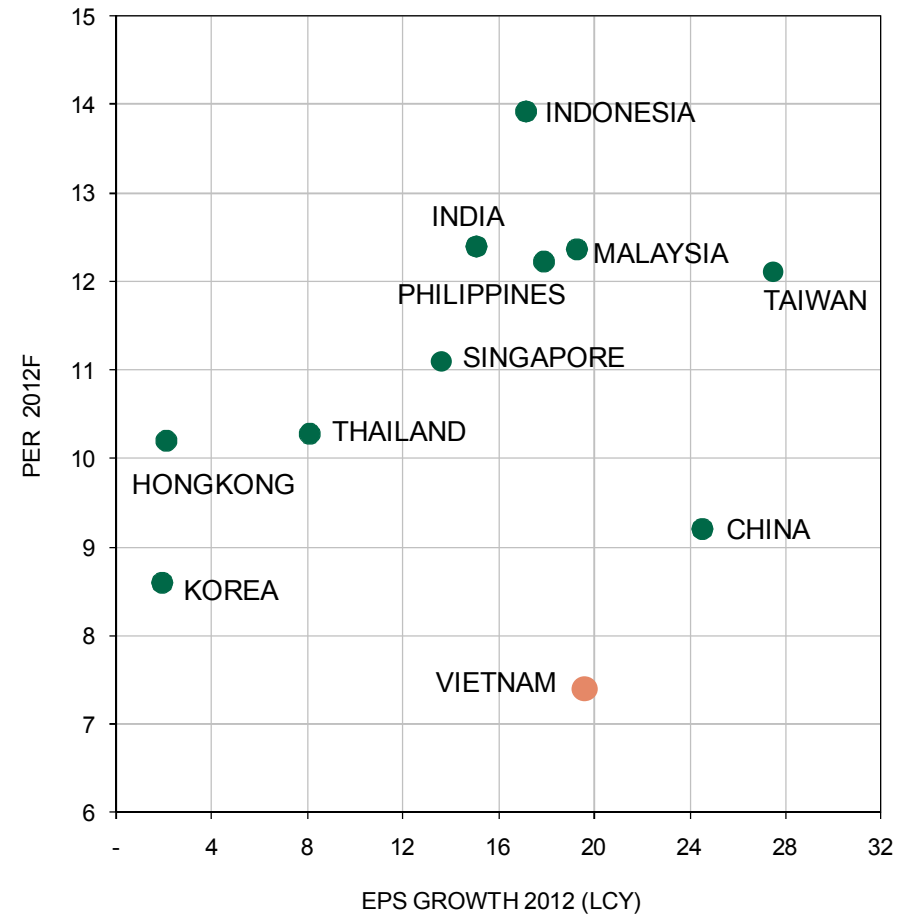
COMPARATIVE VALUATIONS



2011 PER VS 2009-11 EPS CAGR



2012 PER VS 2012 EPS GROWTH

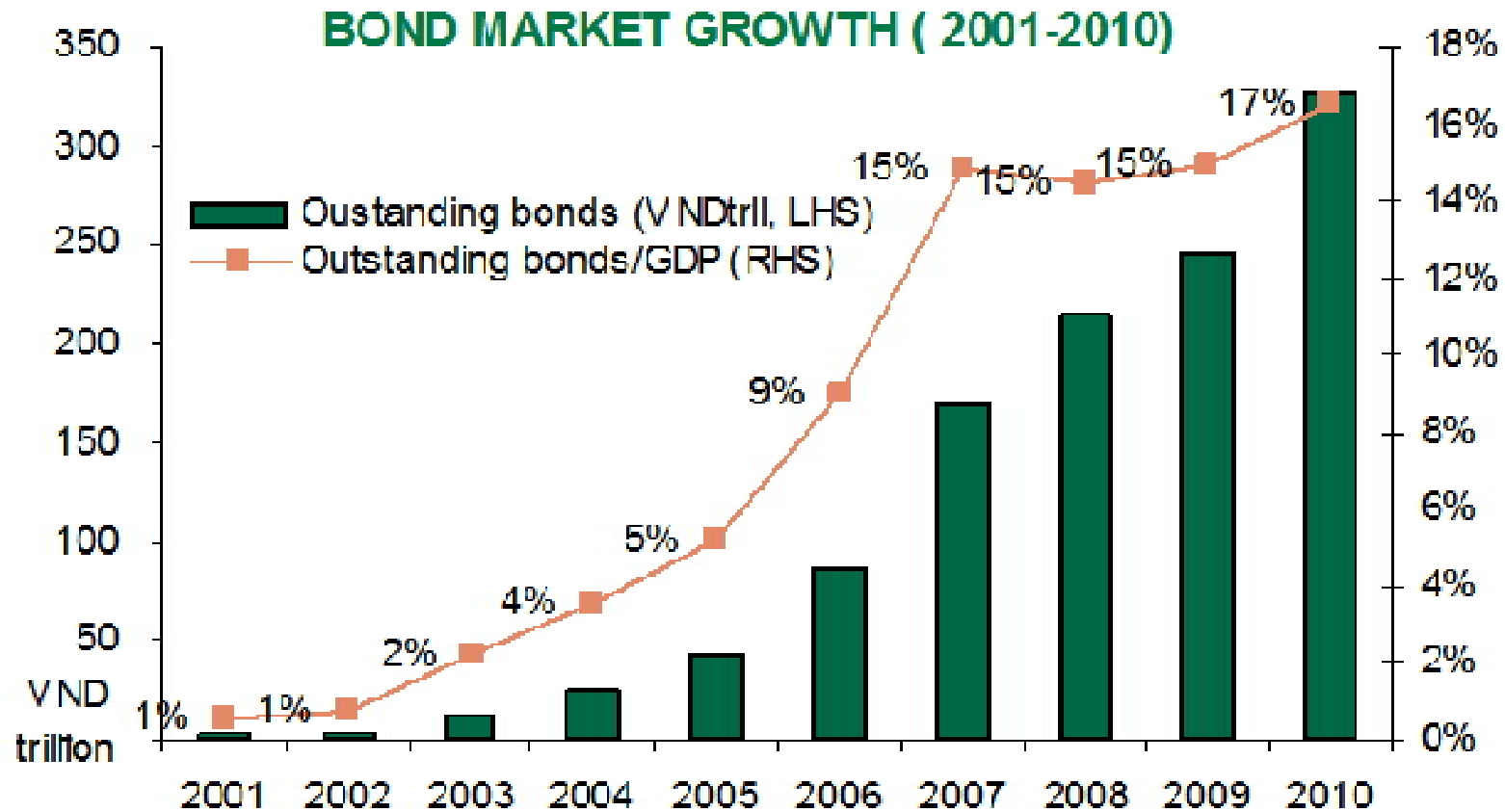


- Margin trading introduced in 2011
- Multiple trading account allowed in 2011
- Buying and selling on the same day allowed in 2011, settlement T+3
- Revision of Securities Law enacted in 2011 to help improve corporate governance, securities issuance by public companies
- Short selling banned and no regulation on securities borrowing and lending
- SoEs privatization are promoted again after stuck for years
- New trading platform by the end of 2012
- Stock index futures traded by 2013
- Privatization of Hochiminh City and Hanoi stock exchanges still far away

VIETNAM BOND MARKET

PERFORMANCE AND REGULATION CHANGES

A YOUNG AND IMMATURE BOND MARKET



Source: Dragon Capital

A YOUNG AND IMMATURE BOND MARKET

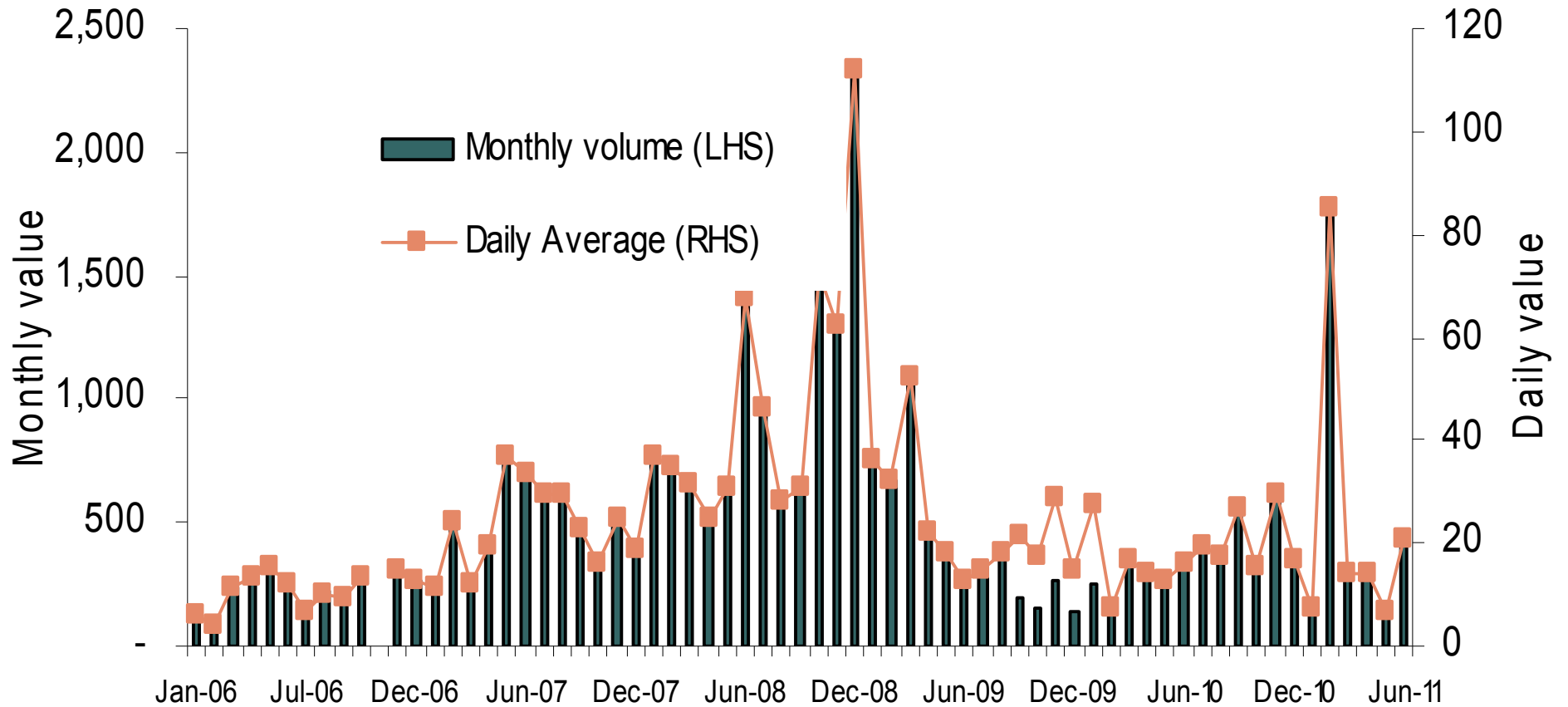


- The Vietnamese market in reality born when Vietnam entered WTO in 2006.
- Bonds as % of GDP about the same as Thailand and Philippines in mid-90's.
- Circa 500 government bonds makes an average issue size of some 20m.
- MOF issues ceiling rates or preset acceptance rates for underwritings/auctions.
- Very few institutions (if any) do mark-to market.
- After 2006 secondary market activities clearly picked up but are NOW down to pre-WTO levels. Upper graph also includes repos and window dressing trades.
- After 2008 foreign exodus the market today is predominantly Vietnamese.
- In the absence of mutual funds/pension funds the banks make up one giant investor.

A YOUNG AND IMMATURE BOND MARKET

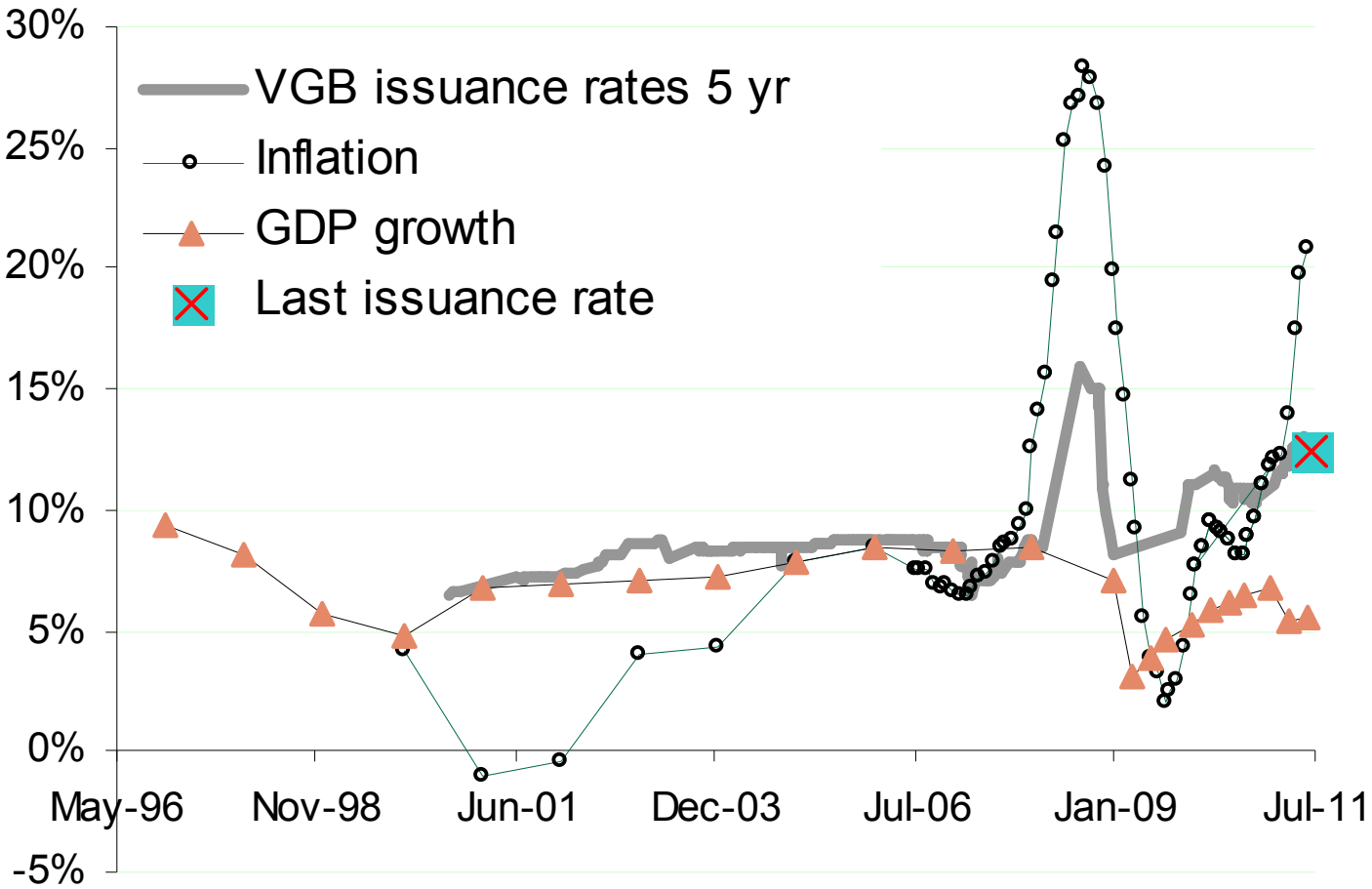


Secondary market trade value of VDB and Treasury bonds (USDmn)



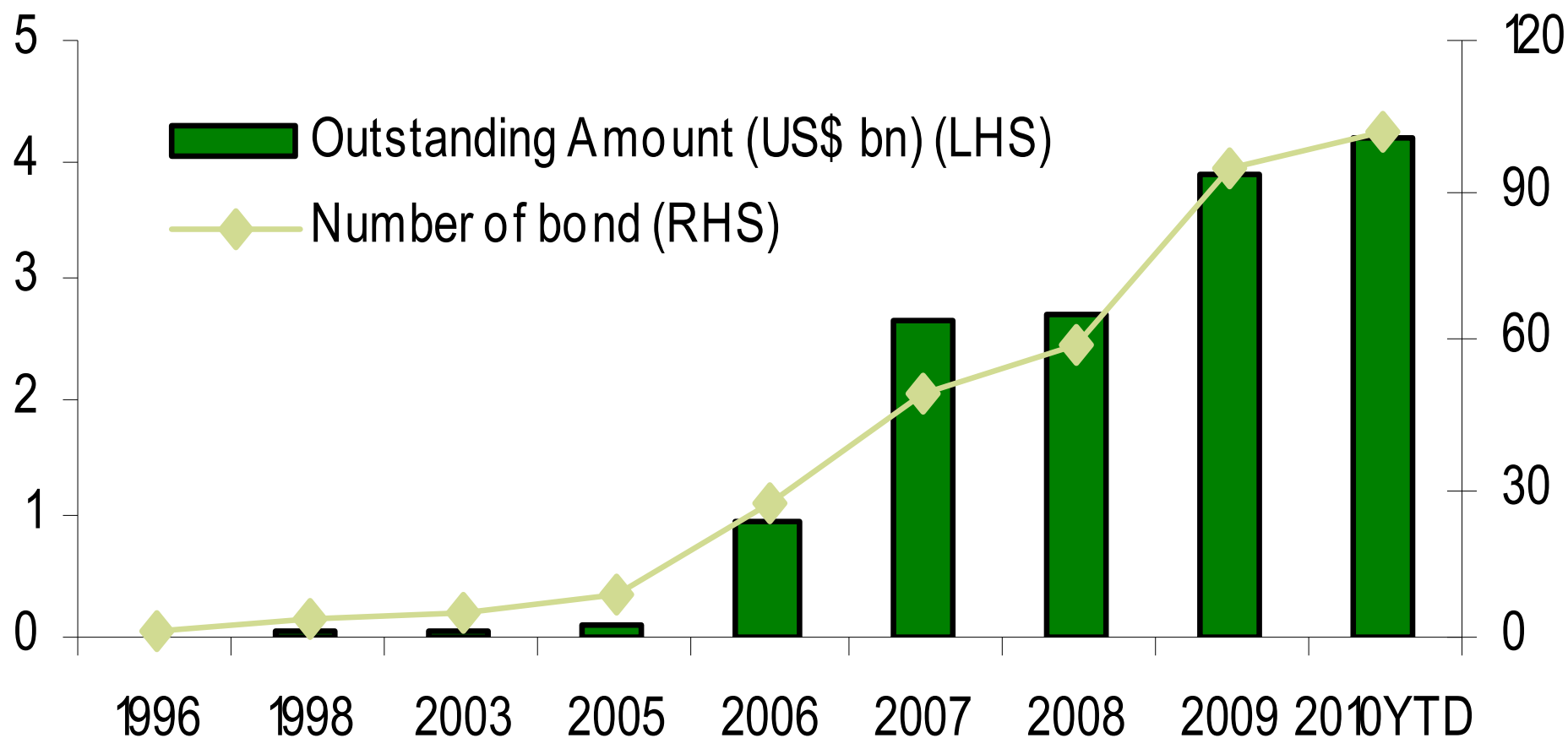
Source: Dargon Capital

VGB Issuance Rates

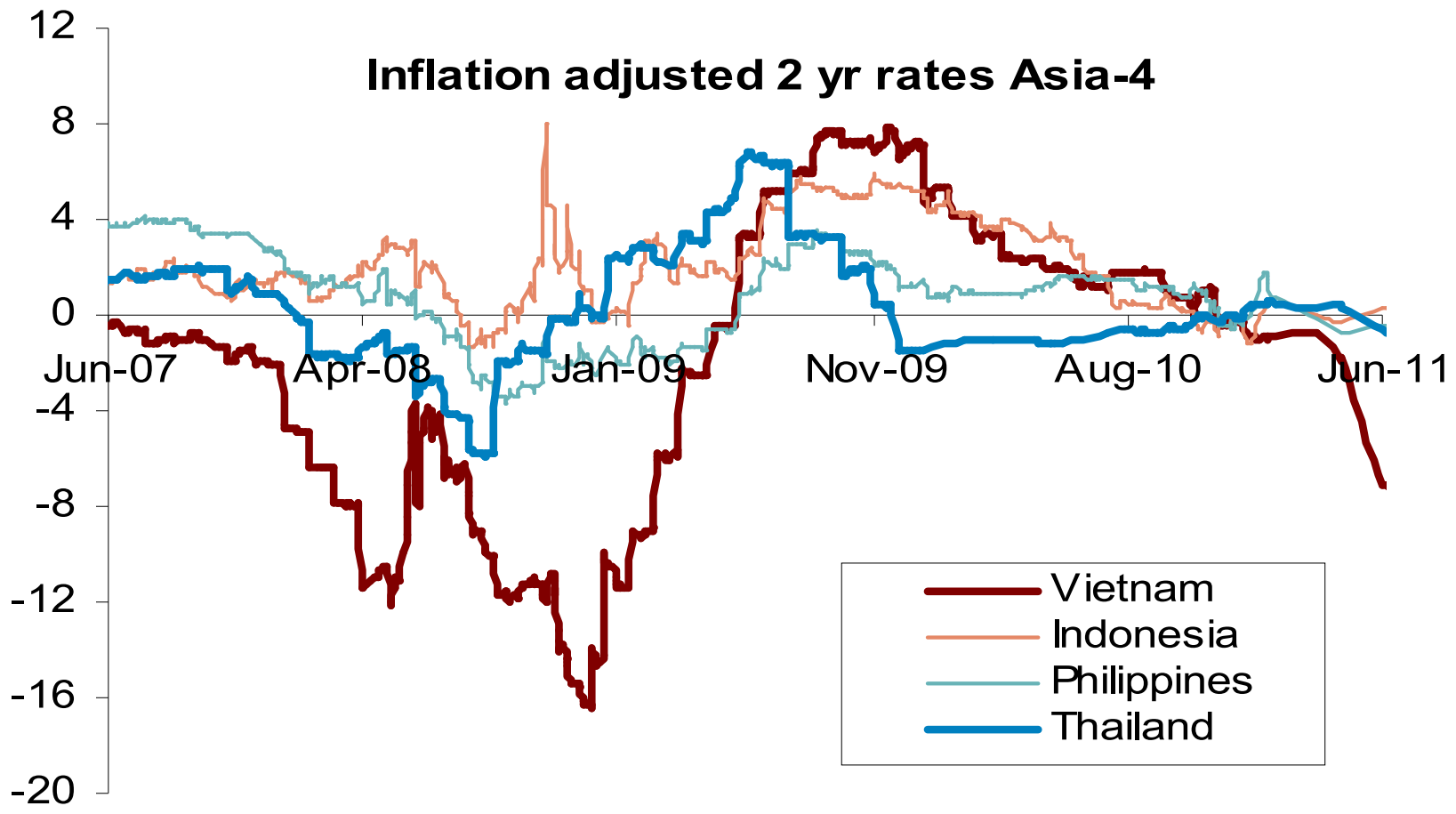


- Interest rates are very fragmented and links between them are weak, i.e. policy rates, bank deposit rates, interbank rates and government yields all mostly live their own lives.
- Pre-WTO VGB rates were quite stable at around 8.3-8.6%. Today very volatile and likely to stay at >9% for a long time. 3-5 yields today are at 12.5% after peaking at 13-13.2% in May.
- Limited product range.
- Repos are done as bilateral buy/sell agreements.
- Short selling in reality not possible.
- No domestic rating agency contributes to opaque corporate pricing.
- Offshore investors (no banks) face 10 bps trade tax and 10% coupon tax.

CORPORATE BOND



Inflation adjusted VGB yields are now negative and below all peers



- Reopening system launched in 2007
 - Buyback program to be launched this year to reduce the number of G-bonds and increase liquidity on secondary market
 - New electronic trading platform to be launched in 2012-2013
 - Rating agency and primary dealer system prepared
 - New regulation on commercial banks' investments in corporate bonds
-

THANK YOU!

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