VIETNAM

COUNTRY REPORT

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ASIAN SECURITIES FORUM
OSAKA, JAPAN
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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
TRIGGERS TO REFORM

- 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

• 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

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

PERFORMANCE AND REGULATION CHANGES
• 2009 - Outperformed EMs through global reflation 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
• 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.

• Adjusted free-float Index - VN30 - will launch end 2011, milestone for derivative mechanism.

• Open-ending of domestic funds impends
### FORECASTS AND VALUATIONS

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

- 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

PER 2011F

EPS CAR 2009-11 (LCY)

2012 PER VS 2012 EPS GROWTH

PER 2012F

EPS GROWTH 2012 (LCY)
EQUITY MARKET – REGULATION CHANGES

- 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)

Monthly volume (LHS)

Daily Average (RHS)

Source: Dargon Capital
VGB Issuance Rates

- VGB issuance rates 5 yr
- Inflation
- GDP growth
- Last issuance rate

May-96 Nov-98 Jun-01 Dec-03 Jul-06 Jan-09 Jul-11
A YOUNG AND IMMATURE BOND MARKET

- 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

Outstanding Amount (US$ bn) (LHS)

Number of bond (RHS)
Inflation adjusted VGB yields are now negative and below all peers.
BOND MARKET - REGULATION CHANGES

• 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!

For more information on VBMA, please visit www.vbma.org.vn