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# Vietnam Equity Holding (VEH) Monthly Update — December 2012

## Macroeconomic Update

Vietnam had an eventful December to close out the year with numerous economic statistics being announced and several policy changes occurring. First, 2012 GDP was announced at 5.03%, which compares poorly with 5.89% GDP growth in 2011, but it could have been worse had it not been supported by the 18.3% increase in exports and the slight trade surplus of US$284 million. Surprisingly, inflation slowed during December to 6.8% Y-o-Y from 7.08% in November after monthly price gains fell to 0.27% from 0.47%. With falling inflation, the State Bank of Vietnam (SBV) chose to cut all policy interest rates by 1 percentage point towards the end of the month (the sixth cut in 2012); the refinancing rate now stands at 9%, the discount rate is at 7%, and the deposit interest rate cap is down to 8%. However, with the aforementioned policy easing, a 5% increase in electricity prices, and the onset of the holiday season (Lunar New Year is in February) inflation will likely pick up in January. Credit growth was announced as having increased approximately 8.91% in 2012 with deposits growing 20.3%, and liquidity increasing 22.4%. Outstanding loans grew more in December than in the rest of the year combined, though we do not believe that banks are finished deleveraging or are changing their strategies. The most positive statistics would be the low inflation result and the strong export growth amid an uncertain global economy.

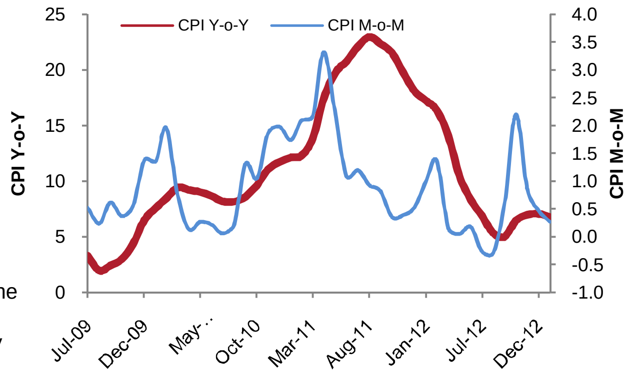
In a report published by the government, the SBV announced that its efforts to restructure the weaker, smaller banks have been progressing with “drastic measures” being taken towards 9 of these banks to prevent a collapse and ensure that there is still some confidence in the banking system. Measures included substantial liquidity support and international audits, though the SBV noted that it met stubborn resistance from the large shareholders of these banks which slowed the progress of the restructuring. Similarly, the restructuring effort of state-owned enterprises (SOEs) has been slow, though in this case the reason has been “limited management capacity”. As Vietnam’s current laws may hold executives accountable to prison sentences if losses are incurred at SOEs, executives are understandably making things difficult. The government has progressed in its discussions on measures for solving the bad debt situation – the main proposal is for a debt asset management company to resolve approximately US$4.8bn of bad debt while banks absorb about US$2.5bn through loss provisions and other measures.

During the month, Japanese firms invested in Vietnam through high-profile acquisitions of well known Vietnamese companies. Sumitomo Life Insurance purchased HSBC’s 18% stake in Bao Viet Holdings, Vietnam’s largest life insurer, for US$340mn in cash, and Mitsubishi UFJ agreed to purchase a 20% stake in Vietin Bank from the government for approximately US$745mn, the largest Japanese investment in a Vietnamese bank. The increased interest in Vietnam by Japanese firms is encouraging and is likely due to Vietnam’s continued good growth prospects as well as Japanese diversification away from China.

The Vietnamese government has allowed the World Bank and the IMF to conduct their first-ever complete financial analysis of Vietnam and will have results by 1H 2013. While the decision to publish the report is ultimately up to the Vietnamese government, we are hopeful that the results of the report will be taken seriously and acted upon in order to continue to strengthen the economy. The Prime Minister noted that Vietnam faces continued economic challenges in 2013. While we are optimistic, the fact of the matter is that Vietnam is not out-of-the-woods yet and further reforms and improvements are necessary.

| Indicators | Dec-12 | 2012 | Y-o-Y | 2011 |
|---|---|---|---|---|
| GDP Growth (%) | Q4: 5.44% | 5.0% | | 5.9% |
| Inflation (%) | 0.3% | 6.8% | 6.8% | 18.1% |
| Exports ($Bn) | $10.4 | $114.6 | 18.3% | $96.2 |
| Imports ($Bn) | $10.6 | $114.3 | 7.1% | $105.8 |
| Trade Deficit | $200 Mn | -$284 Mn | -103.0% | $9.5 Bn |
| Disbursed FDI ($Bn) | $0.5 | $10.5 | -4.5% | $11.0 |
| VND/USD | 20,860 | -0.8% | -0.8% | 21,036 |

*Source: General Statistics Office of Vietnam (GSO), Vietcombank*




## Equity Market Update

The Vietnam Index (VNI) rallied strongly in December to 413.73 from 377.82 at the end of November, an 8.0% increase in EUR terms (9.5% in VND terms). Volume improved throughout the month, recording approximately 42 million average daily traded shares in comparison to 22 million in November. It appears that there has been an increase in confidence among foreign investors and this has prompted domestic investors to join the fray and as this report is being written, the VNI has already breached the 450 level with some market participants even predicting that it will hit 500 by the end of Q1. The increase in confidence among foreign investors is due to many factors but lately there has been increased talk from key government figures and ministries of increasing the foreign ownership limits of some large cap companies (currently at 49% for most Vietnamese companies), of some of the weaker banks (currently at 30% for all banks), and possibly introducing non-voting shares to help foreign investors get around the foreign ownership limit. Additionally, there are firm plans to increase the trading bands that limit companies on the Ho Chi Minh Stock Exchange to no more than 5% daily gains or losses and 7% on Hanoi Stock Exchange to 7% and 10% respectively. The Japanese acquisitions of large holdings in Bao Viet Holdings and Vietin Bank made both of those large cap stocks increase, though Vietin Bank felt less of an effect since foreigners were practically shut out of that stock due to the ownership limits. Overall, the apparent progress on restructuring the banks, resolving the bad debt through the debt asset management company, and the recent interest rate cut appears to be propelling this rally into 2013.

## Real Estate Market Update

The real estate market has received increased positive attention during the month with the Prime Minister and other branches of the government focusing on “rescuing” the sector from its prolonged stagnation. First of all, the interest rate cut was already a positive development for the real estate market, but in addition to that, the SBV announced that it will no longer limit the ratio of loans to the “discouraged sectors” of stock and real estate investments. Since Resolution 11 went into effect, the maximum percentage of these loans of total outstanding loans at lenders was limited to 16%, and that restriction has now been lifted. As much of the financial systems’ current problems come from the underperforming real estate market, the government has turned to reviving it in order to ease some of the pain of the banking system. As such, the Prime Minister urged the following: “to restructure property products to meet demand, reduce prices, provide products directly to buyers with real demand to avoid speculation, and filter out weak real estate companies.” Additionally, the SBV has been instructed to work with lenders to deal with the current real estate bad debt and to work with other ministries and provinces to keep bad debt in real estate from rising. While the government has not had the chance to implement all of these new policies, there have already been some slightly encouraging statistics emerging from the real estate market with office and retail rents in Ho Chi Minh City increasing slightly in Q4. Unfortunately, the residential market continued to underperform in Q4, though very few new projects were launched in 2012 which will hopefully result in the current supply decreasing in the near future. All of this could mean a turnaround in the share prices of listed real estate companies coinciding with the current equity market rally. We are skeptical that the proposed measures will be enough to unfreeze the real estate market, but they are steps in the right direction.

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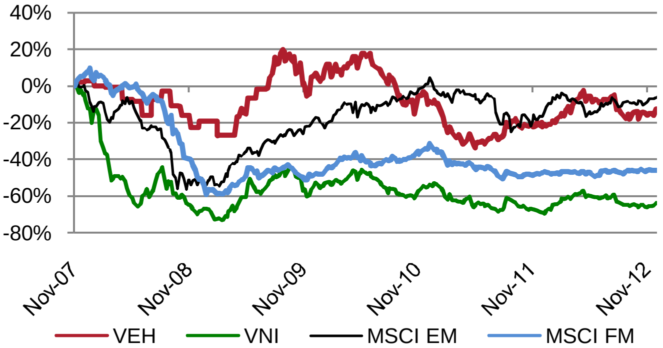
| | |
|---|---|
| **NAV per share** | **€2.08** |
| **Outstanding Shares** | **21,589,310** |
| **Share price** | **€1.30 (Last traded price on FSE)** |
| **Discount** | **37.5%** |
| **Total NAV** | **€44,967,272** |

**Performance**

| % | Monthly | YTD | Year End 2010 | Since Inception |
|---|---|---|---|---|
| **NAV per share** | 4.6 | 14.6 | -1.5 | -11.0 |
| **Share price** | -0.8 | 25.0 | -31.6 | -50.9 |
| **VN Index in EUR** | 8.0 | 16.8 | -18.7 | -63.1 |
| **MSCI EM in EUR** | 3.2 | 13.1 | -7.0 | -4.7 |
| **MSCI FM in EUR** | 0.5 | 3.0 | -17.2 | -45.1 |




## VEH Update

In December, VEH's un-audited NAV per share was €2.08, representing an increase of 4.6% from €1.99 at the end of the prior month. Over the same period, the VN Index increased 8.0% in EUR terms (up 9.5% in VND terms). The NAV increase was mainly due to a 6.0% gain in portfolio value from the increase in prices of listed stocks offset by a 1.4% unrealized FX loss from the appreciation of the EUR against the VND.

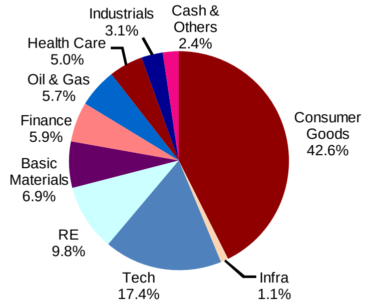
## Share Buyback Program

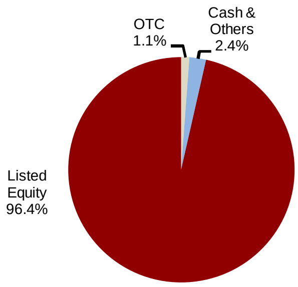
The NAV was supported by 0.1% through the implementation of the share buyback program in December, during which 27,700 shares were repurchased. In total, 156,200 share have been repurchased through the share buyback program.

## Investment Manager Update

We continue to screen for opportunities to rebalance into small and mid cap stocks with strong fundamentals and higher reward/risk ratios to capitalize on the potential upside gain from an anticipated long-term rebound in the Vietnam stock market.

## Portfolio by Sector and Asset Allocation




## VN Index – last 6 months: *Bloomberg*


| Top Holdings | % of NAV |
|---|---|
| Vinamilk (VNM) | 25.9% |
| FPT Corp (FPT) | 13.0% |
| Phu Nhuan Jewelry (PNJ) | 6.9% |
| Development Investment Corp (DIG) | 5.4% |
| DABACO Corp (DBC) | 5.1% |

**Foreign Investors' Net Buy on HOSE**

| Date | Volume (Mn shares) | Value ($Mn) |
|---|---|---|
| Dec-12 | 33.7 | 66.9 |
| Nov-12 | 20.7 | 66.5 |
| Oct-12 | 6.6 | 7.4 |
| Q3 2012 | 22.8 | 39.2 |

## About Saigon Asset Management

Established in 2007 in the Cayman Islands with representative offices in Ho Chi Minh City, SAM manages Vietnam Equity Holding (VEH) and Vietnam Property Holding (VPH) and employs over twenty professionals with diverse international financial backgrounds and proven track records.

**Louis Nguyen**
Chairman & CEO

**Kevin Flaherty**
Managing Director
Energy & Natural Resources Investments

**Peter Dinning**
Managing Director
Real Estate Investments

**Hung Pham**
Director
Investment Banking

**Eric Schaer**
Managing Director
Advisory Services

**Spencer White**
SAM Independent Board Member

| | | |
|---|---|---|
| **Structure** | Cayman Islands registered closed-end funds | |
| **Funds launch** | November 2007 | |
| **Duration** | 5 Years (extended by shareholder vote for 3 years on 11/3/2012) | |
| **Management Fee** | 2% of NAV | |
| **Performance Fee** | 20% of gains over 8% hurdle with high water mark | |
| **Auditor** | Grant Thornton | |
| **Legal Counsel** | Reed Smith LLP & Appleby | |
| **Administrator Custodian** | Deutsche Bank (Cayman) Ltd<br>Deutsche Bank AG, Ho Chi Minh City Branch | |
| **Clearing/Settlement** | Euroclear or Clearstream | |
| **Market Makers** | **886 AG**<br>+49 6101 98861 18, www.886ag.de<br>**LCF Rothschild**<br>+44 207 845 5900, www.lcfr.co.uk | |
| **Bloomberg** | **VEH:** 3MS:GR | **VPH:** 3MT:GR |
| **Reuters** | **VEH:** 3MS.DE | **VPH:** 3MT.DE |
| **ISIN** | **VEH:** KYG936251043 | **VPH:** KYG9361R1074 |