



# Vietnam Primer

## Opening the door to Vietnam August 2006

Deutsche Bank AG/Hong Kong

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DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1

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7 August 2006

# Vietnam Primer

## Opening the door to Vietnam

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### Strong economic growth

Vietnam's economic growth exceeded 8% in 2005, on the back of increased private investment and strong domestic demand. In addition, rising investor confidence, increased foreign investment (FDI), ongoing deregulation of capital markets and the fast pace of privatization will help sustain Vietnam's strong economic growth momentum. The Government of Vietnam (GoV) estimates a GDP growth target of 7.5% and GDP per capita of US\$687 (+9.0% YoY) for 2006.

### Market opportunities

The Ho Chi Minh City price index, VNINDEX, comprising 45 securities, has been one of the best performers among key markets in the Asia-Pacific region with c.68% YoY growth in 1H06. Market liquidity improved in the first half of 2006 with an absolute market cap of c.US\$2.5bn (as at 1 August 2006, c.f. US\$565m as at beginning 2006) and the turnover/market cap ratio improving to 0.6x (0.1x in 2005), and the market cap/GDP ratio improving to 4.0% (1.3% in 2005).

The recent bull run underwent a correction whereby the index declined by 227 pts (-36%) to close at 404 pts as at 1 Aug 2006 since hitting a peak of 632 pts in April 2006. Likewise the market PE ratio fell from 21.4x at its peak in April 2006 to 17.9x at the end of June 2006. The correction offers investors the opportunity to gain exposure to this vibrant and growing market.

### GoV's remarkable reform initiatives

GoV has undertaken a series of reforms to sustain Vietnam's high economic growth (2000-2005, five year CAGR 7.5%). Financial sector reforms have improved the performance of banks and have enhanced public confidence in the banking system. The GoV plans to equitize 1,700 of the 2,700 state enterprises by 2010, thus offering avenues to significantly expand the equity capitalization of its trading centers. On the external trade front, WTO ascension is in its final stage whilst the ASEAN FTA and WTO commitments are likely to introduce new technology, increase productivity, and foster a more competitive economy.

### Sustainable growth is achievable but risks remain

Despite the remarkable growth story surrounding Vietnam, its turnaround is still in its infancy with much room for improvement, especially in terms of the speeding up the process of GoV reforms implementation. In addition, the legal framework required to increase Vietnam's attractiveness to FDI is still in a developmental stage. The quality of economic growth still remains a concern with the more non-value added sectors providing the impetus for the growth, whilst the financial and services sectors remain the laggard.

### Trading in Vietnam

Deutsche Bank is able to trade synthetic equity in the Vietnam market. We can offer synthetics products via swap or securitised instruments. Sector and Index products can also be created. Please call Benjamin Chandler (+852-2203 6936 - benjamin.chandler@db.com) or Blair Richmond (+852-2203 6083 - blair.richmond@db.com) for more information.

## Primer

### Key Facts

Area	331,688 Square kilometers
Population	82 million (> 50% under 25 years)
Capital	Hanoi
Languages	Vietnamese
Currency	Vietnamese Dong (VND)
Exchange rate (to US\$)	VND16,008.00 (as at 1 Aug 2006)
Real GDP	US\$52.8 billion (2005)
GDP Growth	8.4% YoY (2005)
GDP per capita	US\$630 (2005)
Form of Government	Socialist Republic
Head of State	President Tran Duc Luong
Head of Govt.	Prime Minister Phan Van Khai

### Vietnam



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# Economic background

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## Economic history

Since the mid-1980s Vietnam has developed from a centralised, agriculture-based economy to a more market-oriented economic system. Though if measured by employment, Vietnam is still an agrarian society given that c.56.8% of the workforce is involved in agriculture, fisheries and forestry as of 2005. If the measure is by percentage contribution to GDP, however, industry (mining, manufacturing and construction) is the dominant sector of the economy with a contribution of 41% (in 2005) to GDP as Vietnam's agriculture, fisheries and forestry (agriculture sector group) sectors contribute only c.21% to GDP. The contribution of industry to GDP had increased by 1,300bps to 40% in 2005 from 27% in 1995.

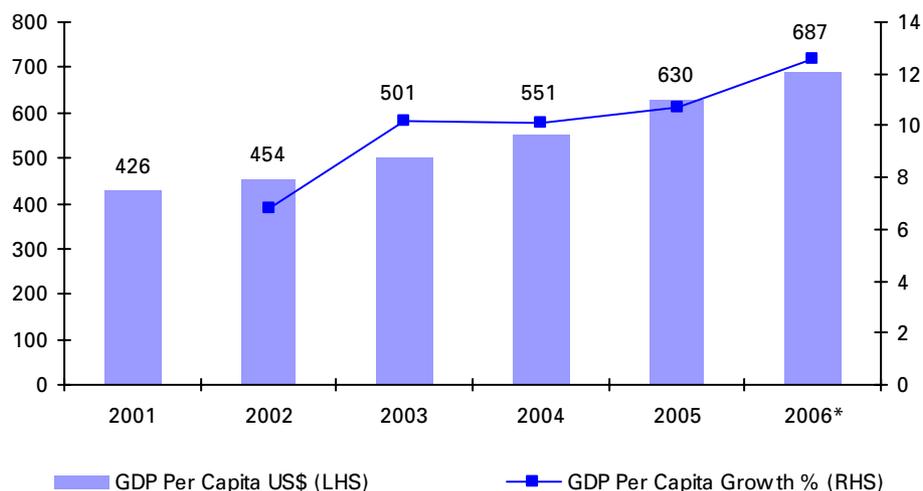
Vietnam has made significant strides in developing international trade and investment while gradually integrating into the global economy. Having had the US trade embargo lifted in 1993, Vietnam has since attained a full member status at ASEAN (Association of South East Asian Nations) and in 2001 effected a Bilateral Trade Agreement (BTA) with the US. According to WTO (World Trade Organization), Vietnam's accession to full member status is in its final stage and the Government of Vietnam (GoV) expects accession by end-2006. (Source: <http://www.wto.org>).

## Economic performance

2005 marked the final year of Vietnam's five year plan for 2001-2005. GoV had targeted an average GDP growth rate of 7.5-8% over this period. While the average GDP growth during the period 2001-2004 remained 20 bps below the stipulated target at 7.3%; the 8.4% GDP growth achieved during 2005 enabled Vietnam to meet its minimum average target growth rate of the five year plan. The 8.4% YoY growth for 2005 marked the sixth consecutive year of GDP growth, and recorded the highest growth rate for East Asian countries (ex. China). The stellar growth was achieved despite the adverse impact of avian flu, drought for part of the year, a more challenging export market for clothing, and rising prices of key imported inputs.

The GDP growth in key sectors was from agricultural group sector with 3.8% YoY, industry 10.6% YoY and services 8.4% YoY in 2005. Domestic demand was the main contributor to growth whilst exports also remained strong. Gross fixed investment continued to grow, reflecting the regulatory improvements in the business environment. The investment to GDP ratio rose to 38% of GDP, up from 29% in 1998. An increase in consumption has been apparent in 2005, aided by higher farm incomes that reflected rising prices for key agricultural products, strong growth in employment in manufacturing and services, buoyant inward remittances, and salary rises for government employees. Vietnam's GDP per capita levels have increased by a CAGR 2001-2005 of 9.3%. GoV projects a US\$687 GDP per capita by end- 2006.

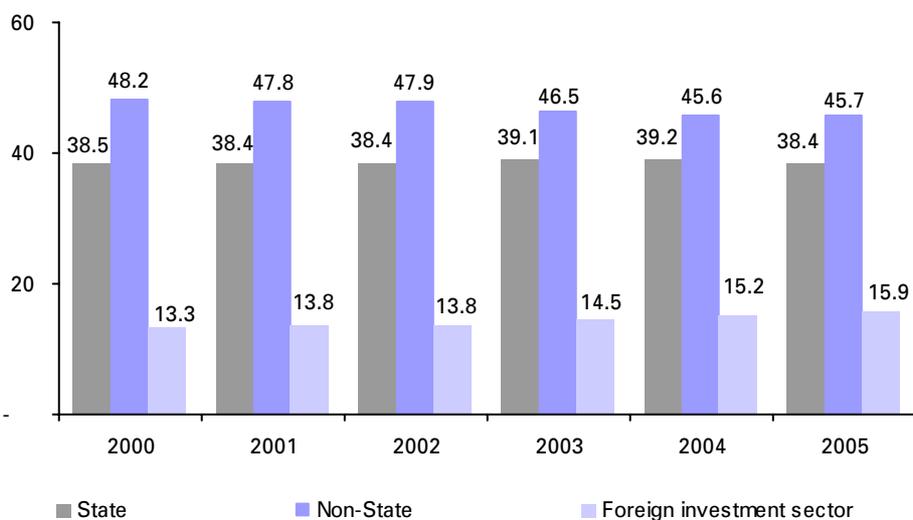
**Figure 1: GDP per capita US\$**



Source: Ministry of Finance, \* – Provisional

Vietnam has undergone a steady change in its economic mix. Private, Individual and FDI investment portions of national GDP are increasing and the State economy portion has declined in 2005. However, the economy continues to be dominated by the state sector, while the private and individual sectors have seen growth. Vietnam has also become increasingly dependent on its retail sector and a rapidly expanding services sector.

**Figure 2: Percentage contribution to GDP by economic sectors**

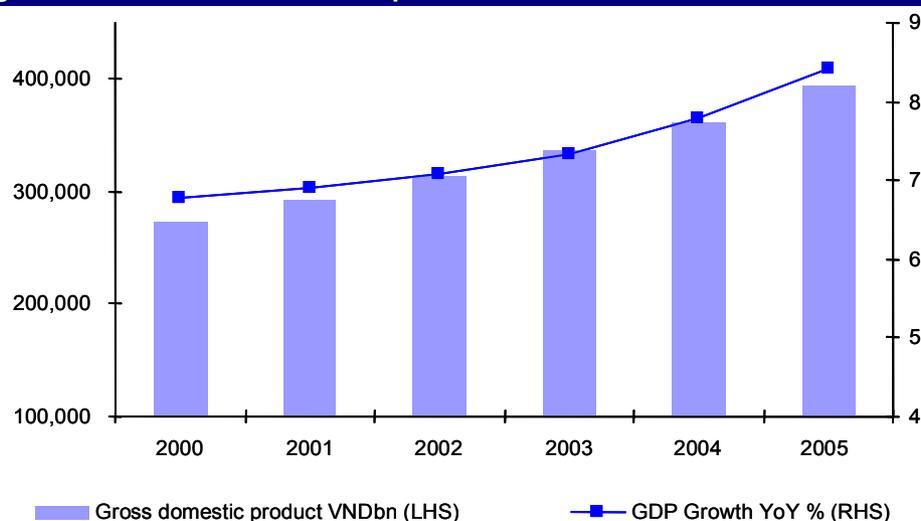


Source: Ministry of Finance

From the production side, the industry and services sectors continued to drive growth. Industry's share of GDP rose once again to reach 40.2% in 2005, largely as a consequence of private sector expansion. Industrial growth is drawing on inexpensive labour and improved infrastructure. Manufacturing, which accounts for about half of industry's added value, has been a major contributor to gains in both output and employment, with output rising by 13% YoY in 2005. Furniture and electronic goods account for a fast-rising share of total manufactured exports and, though growth of clothing and footwear decelerated, they were significant contributors to the total manufactured output. Overall, the proportion of light

manufactured goods in total exports increased from 36% in 2001 to c.40% in 2005. In comparison with overall industrial performance, mining growth has been modest (ex. Hydrocarbon), a result of the combined effect of regulatory constraints placed on foreign investment in the sector, outdated technology, and government efforts to protect natural resources. Mining regulations were overhauled last year, so the sector is likely to attract more investment. The volume of crude oil output declined by almost 4.5% in 2005 as existing oil fields were run down; new fields have not yet come on stream.

**Figure 3: Real GDP at constant 1994 prices**



Source: Ministry of Finance

## Investments

In 2005, GoV estimated the total value for total social investment at current prices to be VND326tr (+10.5% YoY), amounting to c.38% of GDP. Of the three main economic investment sectors, namely state, non-state and FDI, the latter recorded the highest YoY increase at 16.4%. The non-state sector recorded a 15.7% YoY increase while the state sector reported a 5.9% YoY increase in investment.

The state investment capital however remained the most important investment source for Vietnam with a share of 51.5% in 2005 c.f. 53.6% in 2004. The total state investment amounted to VND168tr of which the state budget contributed c.44% with the remainder split between SOEs, SOE investment and other sources. Despite the contraction in state investment expenditure, it is apparent that the state still plays a major role in increasing infrastructure development and thereby fostering economic growth.

Infrastructure investments were 34% of total investments in 2005 and the GoV expects c.30% of total expenses for the period 2006-10 to be spent on infrastructure development. The total investments in 1H06 were c.40% of GDP of which the public sector contribution was 22% (excluding SOEs) with the remainder sourced from SOEs, private and foreign investments. GoV expects the investments to be funded 65% domestically and 35% externally (both ODA and FDI). GoV's domestic funding would comprise proceeds from the equitization of SOEs, bond issuance, private investments and rest from the state budget.

Since 1998 the non-state sector has been the second largest source of investment capital. In 2005, the GoV's estimated non-state sector investment capital stood at VND105tr of which VND103.5tr was from the c.38,000 newly registered enterprises.

## Trade

Both the North and South of Vietnam experienced trade deficits during the war with the deficits continuing post reunification as well. A trade embargo imposed by the US exacerbated problems of low efficiency and poor quality control that hampered Vietnam's exports. In the first decade after reunification, the value of exports was only one-third that of imports. The Soviet Union and the communist countries of Eastern Europe came to be Vietnam's most important trading partners.

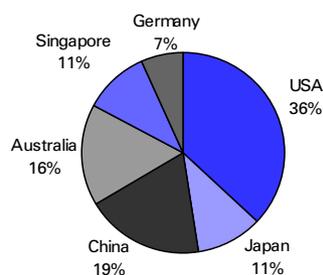
Following the collapse of the Soviet Union and the demise of Eastern European communist governments in the late 1980's and the early 1990's, and the subsequent decline in trade with these areas, Vietnam's economic reform program took on an added urgency. In particular was Vietnam's effort to increase trade with the more 'liberalized' economies. Subsequently, such countries as the US, Japan, Singapore, and Taiwan became major trading partners. Exports increased, and the trade deficit narrowed.

Mineral fuels and lubricants, motor vehicles, machinery, and foodstuffs account for most of Vietnam's imports. Exports consist mainly of crude oil, primary commodities (e.g., rubber, coal, forest products, and coffee) and such light manufactures as textiles and footwear. In addition, there has been a significant rise in the export of processed seafood and petroleum.

Vietnam's trade deficit narrowed to US\$4.7bn in 2005, after a sharp widening in the trade gap over the last five years. Vietnam's total merchandise exports for 2005 rose 19% YoY in value, below the 30% YoY increase recorded in 2004 but still higher than the comparative rise in imports over the period concerned. Textile and clothing exports rose at a modest 9.6% YoY in 2005, compared with an average annual rate of about 30% in 2002–2004. Exports of wood products, electronic goods, and crude oil recorded higher growth, with the jump in international oil prices outweighing the decline in the oil export volume. (Vietnam, a net oil exporter, exports the crude it produces and, lacking refinery capacity, imports refined petroleum products).

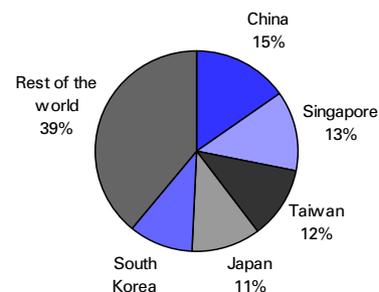
In 2005, total exports increased 21.6% YoY to US\$32.2bn (ex. cross-border trade). The increase in total exports was due to increasing commodity prices and export value – the average growth of 11.5% in export prices translated to a US\$3.3bn in export value. The most significant increases in export prices were for crude oil (40.7% YoY), Coffee (24.7% YoY), Coal (20.7% YoY), rubber (17.9% YoY) and tea (15.9% YoY). The greatest increase in export volumes, however, were for coal (53.8% YoY), rice (28.1% YoY), peanut (26.1% YoY) and rubber (11.9% YoY).

**Figure 4: 2005 - Six largest export mkt's**



Source: Ministry of Trade

**Figure 5: 2005 - Five largest import mkt's**



Source: Ministry of Trade

In 2005, total import turnover was estimated by the GoV to have increased by 15.4% YoY to US\$36.9bn. However, this was the lowest import growth rate since 2002. Despite only a meagre rise in import volumes, the significant increase in global crude oil prices increased its import value 35.6% YoY yielding an additional US\$1.4bn whilst contributing 28.4% of the rise in total import values.

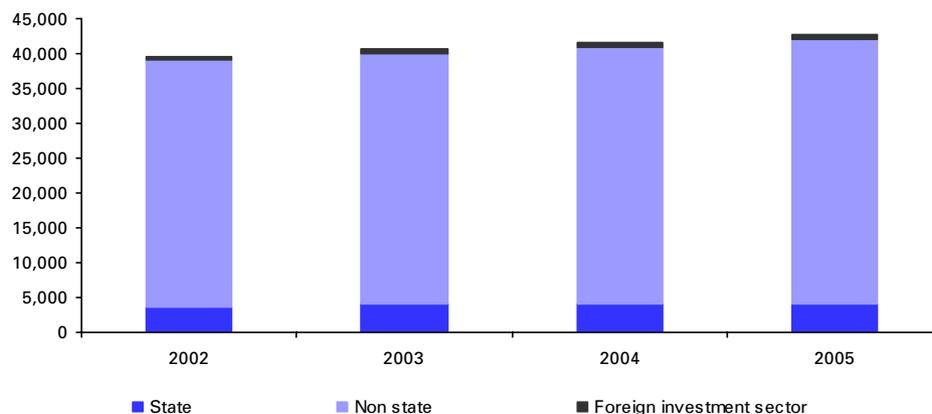
Total imports were dominated by domestic imports, driven by higher consumer demand for imports and an increase in consumer spending power, to US\$23.2bn, or 62.9% of total imports. The foreign invested sector is estimated by the GoV to have imported US\$13.7bn, representing 37.1% of total import turnover.

The balance of trade deficit is highlighted in the “Foreign exchange” section.

## Demographics

In 2004, Vietnam’s age distribution was estimated as follows: 0 to 14 years of age, 29.4%; 15 to 64, 65%; and 65 and older, 5.6%. As at end 2005, the total population of Vietnam was 83.1m with a male to female ratio of c.1:1.04. Out of the total working population, c.85% is employed in non state sector. Only c. 2% of the working population is engaged in foreign invested sector.

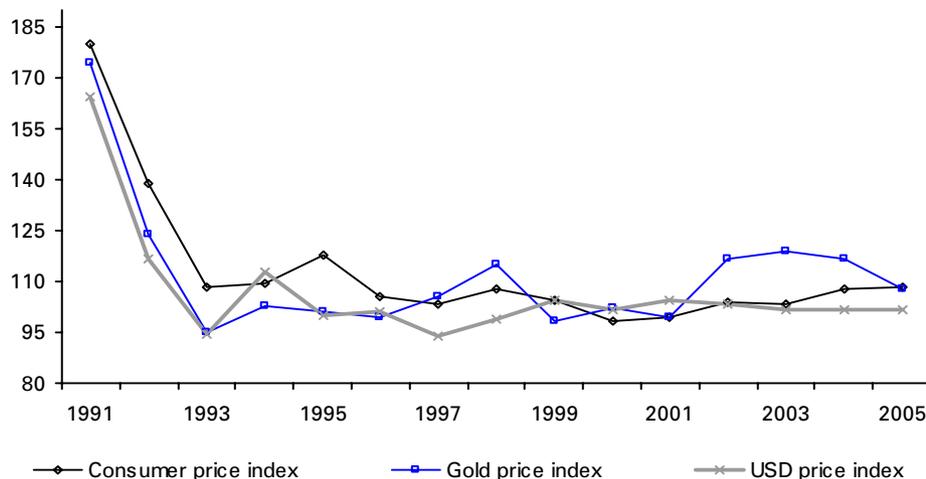
**Figure 6: Population breakdown for sectors (000’s)**



Source: GSO statistics

## Inflation

Higher raw material prices and higher incomes have resulted in cost-push inflation in recent years, to an average of 8.3% in 2005. Other factors contributing to inflation include increases in import prices for oil products, steel, cement, and fertilizer, and in domestic prices of fuels, which spilled over into transport charges. However, the GoV’s non consistent taxation policy on the oil industry had hampered such efforts in the past. Rapid growth in demand for workers in industry and services pushed up salaries for professionals, and for skilled (and some semi-skilled) workers. With salary increases in the public sector (where wages rose by about 30% in October 2004), this fed inflation. From a measurement perspective, the official inflation figure may be understating price pressures because the Government regulates power and transport prices, among others.

**Figure 7: Consumer price index**

Source: Ministry of Finance

## Fiscal performance

The overall fiscal deficit has been held to a c.1.8% of GDP over the past three years according to the IMF. Revenues have been firm at c.20% of GDP, helped by increased oil receipts, improved tax administration, and a widening of tax-payers base. However, Vietnam's fiscal strength may be somewhat overstated given that some expenditure, such as those of the Development Assistance Fund and other infrastructure funds, remain off budget, while directed lending by state-owned commercial banks (SOCBs) are still used as an instrument of policy. Furthermore, revenues from trade taxes may fall further in the near term on account of Vietnam's commitments to the Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA) to reduce tariff rates by end-2006, and tariff changes that may be required for its membership of the World Trade Organization (WTO).

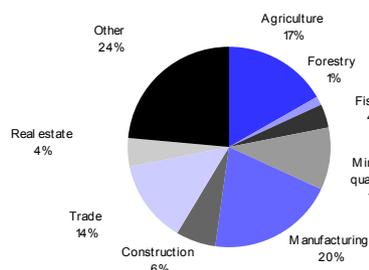
GoV's revenue expectations for 2006 are VND246tr with expenses at VND263tr. This would therefore yield a budget deficit of VND17tr which, as per IMF, would be 1.8% of GDP, but according to the GoV's calculations would be closer to 5% of GDP for 2006. Subsidies on refined oil products and expenditure on infrastructures are expected by the GoV to be the key drivers in the revenue shortfall.

## Country ratings

Standard & Poor's country rating was BB- for Vietnam with Fitch country rating at BB-. Moody's country rating was Ba3 for Vietnam.

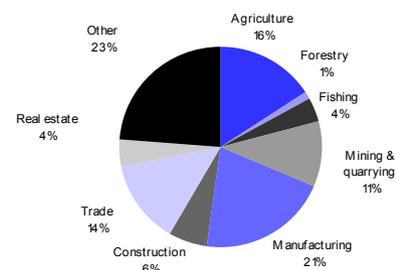
## Overall Structure of the economy

**Figure 8: Contribution to Real GDP, 2004**



Source: Central Institute of Economic Management, Vietnam

**Figure 9: Contribution to Real GDP, 2005**



Source: Central Institute of Economic Management, Vietnam

## Mining sector

Mining industry contributed c.10.5% to GDP in 2005 compared to cf. 10.1% in 2004. According to the Department of Geology and Minerals of Vietnam, the identified key minerals resources are antimony, coal, copper, natural gas, gold, crude petroleum etc. Coal dominates the mining industry of Vietnam. According to the Vietnam Coal and Mineral group, Vietnam's coal reserve has c.220bn tons of anthracite, 78m tons of Semi- anthracite, 38m tons of coking coal, 96m tons of thermal coal, 306m tons of lignite as of 2006. The coal export increased to 17.8m tons in 2005 (cf. 11.6m tons, 2004). Mineral deposits, mainly in the north, are diverse. There are large reserves of anthracite coal, as well as of phosphates, high-grade chromite, tin, antimony, bauxite, gold, iron ore, lead, tungsten, zinc, and lime. A number of offshore oil deposits have been discovered in the South China Sea, mainly off Vietnam's southern coast. Thus the current volatility in oil prices would have a limited impact on the Vietnamese economy provided Vietnam exports more crude oil than it imports refined oil products.

## Financial sector

In the north, until 1975 and throughout Vietnam thereafter, the state-owned National Bank of Vietnam (renamed the State Bank of Vietnam, SBV) functioned as a government monopoly in the banking sector. Commercial banking facilities were virtually nonexistent. Following economic reforms in the late 1980s, however, this structure was inadequate to attract badly needed foreign trade and investment. An SBV regulated import-export bank was established in 1989 to promote investment and to facilitate trade transactions. As foreign investment gradually increased in the early 1990s, some foreign commercial banks were allowed to establish branch offices in Vietnam, which greatly expanded the scope of banking services available.

The SBV manages the banking sector and the foreign exchange market. SBV monitors non performing assets, injects capital and guides in bank restructures. There aren't specific regulations on non performing loans. Total bad debts are c.15 -20% of total bank loans in Vietnam. The interference from SBV in disbursement of loans by commercial banks is at a minimum level. Ratios were introduced for banks for including capital adequacy, liquidity, maximum loan & exposures to single borrower and group in May 2005. Classification of loans according to international standards, reporting and provisioning requirements were also established. Anti money laundering laws were passed along with permission for 100% foreign bank subsidiaries in Feb 06.

Financial sector development and a robust economic outturn contributed to strong growth in monetary aggregates, prompting concerns about the impact of rapid credit expansion on inflation and on the quality of lending. The State Bank of Vietnam, the central bank, has adopted a tighter policy in the past couple of years, with an increase in the reserve ratio of banks in Jul 04, a 50 basis point increase each in the rediscount and refinance rates in January and April 2005, and a 25 basis point rise in the base rate in Feb 05. Initial estimates indicate a decline in credit expansion from nearly 40% in 2004 to about 25% in 2005. Growth in broad money supply mirrored this, falling from 30% in 2004 to 27% in 2005.

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## **Manufacturing sector**

Contributing c.20.7% to Vietnam's GDP, the manufacturing sector grew at a real rate of c.13.1% YoY in 2005. Among the main items of manufacturing, cement increased by 11.9% YoY steel by 21.8%, chemical fertilizers by 24.7%, machine tools by 32.85% YoY in 2005. State Owned Enterprise, the National Cement Corporation (VNCC), holds 46% market share in Vietnam as of 5M06. Cement production increased by 16.5% YoY during 5M06. Vietnam Steel Corporation (VSC) holds 40% of the market share in Vietnam and accounts for 17% of Vietnam's total output as of 2005. Steel production increased by 16.3% YoY in 5M06. The chemical industry accounts for c.8% of the total industrial output of Vietnam as of 2005.

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## **Agriculture and food processing sector**

As at 2005 the agriculture sector alone contributed c. 15.8% to the total GDP of Vietnam while employing c. 56.8% of the total population. During 2005, agriculture sector grew by 3% YoY cf. an overall YoY growth of 8.4% in real GDP. Crops constitute c. 79% of the total agriculture sector with the rest constituting live stocks and service. Food processing is the one of the major industries in Vietnam. Seafood is processed for export, while coffee and tea are processed both for export and for domestic consumption. Beverages and a variety of condiments also are produced in significant quantities.

Agriculture is by far the most important economic sector in Vietnam. The majority of the population (c. 53.3%) directly earns its income from farming. In addition, agriculture is the main source of raw materials for the processing industries and a major contributor to exports; by the late 1980s Vietnam was again exporting rice after years of shortages. Permanent cultivation covers large areas of the country's lowlands and smaller portions of the highlands. The primary agricultural areas are the Red River delta, the Mekong River delta, and the southern terrace region. The central coastal land, which is subject to destructive typhoons, is a region of low productivity. The central highlands area, traditionally one of low productivity, has been intensively cultivated since 1975, but with mixed results. Rice is the most important crop. It is grown on about four-fifths of the cropped land, principally in the Red River and Mekong River deltas. Other major food crops are cassava (manioc), corn (maize), soybeans, peanuts (groundnuts), and sweet potatoes

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## **Textile sector**

Textile is one of the major industries in Vietnam with a contribution c. 15% to total exports. Total textile and garments exports during 2005 were US\$4.8bn, an increase of 10% YoY. The major export market is the US, with more than 55% of total textile exports. The major outputs of Vietnam textile sector are silk, ready made garments, and knitted cloths. During 2005, the YoY growth in these sub sectors was 4%, 15% and 5% respectively. Vietnam textile industry presently has a market share of 4.1% in the US textile market. During the 5M06, textile exports have reached to US\$2.1bn, which represents an increase of 40% YoY.

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## **Fisheries sector**

Fishing sector contributed c. 3.9% to the total GDP of Vietnam. During 2005, fishery sector grew by 11.2% YoY. According to Ministry of Fisheries, marine catches increased by 4.4% YoY in 2005. Seafood raised in fish farms increased to 1.4m tons, an increase of 19.5% YoY in 2005. Seafood export revenue increased to US\$2.6bn, up by 10.3% YoY in 2005. Going forward, Ministry of Fisheries is expecting the total seafood production to be 3.4m tons in 2006, and seafood export revenue to increase to US\$2.8bn.

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## **World Trade Organisation (WTO) - Accession**

In January 1995, Vietnam submitted application for accession and had first multilateral meeting with WTO working committee in July 1998. In April 2002, Vietnam made its initial offer on negotiations for opening the market in respect of commodities and services. In May 2006, Vietnam and the USA signed final WTO agreement.

Full access to WTO is planned in 2006. However Vietnam still needs to reduce a number of tariff barriers. Access to WTO will reduce trade discriminations from many countries towards Vietnam.

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## **China and Vietnam**

Vietnam exports were US\$2.7bn (10.7% of total exports) to China with imports being US\$4.5bn in 2004. China is Vietnam's largest investor with 322 projects worth US\$841m being realised till 2005.

# Government policy on privatization

## Background

The Vietnamese privatization program, officially known as the "Equitization Program" was started in 1992 as part of the State Owned Enterprise (SOE) reform program. Under Vietnamese law, equitization is defined as the transformation of SOEs into joint stock companies and the selling off of a part of the shares in a company to private investors.

The equitization process in Vietnam can be divided into two stages: the pilot stage (1992 to 1996) and the expansion stage (1996 to present).

## The pilot stage of the equitization program (1992-1996)

The pilot program was launched in 1992. SOEs involved in the program were small or medium-sized enterprises. Moreover, it was stipulated that employees of an equitized enterprise have the first right to buy the shares at preferential terms. In the pilot period, only five SOEs were equitized, involving small SOEs from the transportation, footwear, machine and food processing industries. Post-equitization, employees held the dominant portion of shares while the government's holding reduced to c.30%.

**Figure 10: Capital and ownership structure of the first five equitized firms, post-equitization**

Firm name	Capital (VNDbn)	Ownership structure (%)		
		State	Employees	Outsiders (incl. foreigners)
Transportation Service Co	6,200	18	77	5
Refrigeration & Electrical Engineering Co.	16,000	30	50	20
Hiep An Shoes Co.	4,793	30	35	34
Animal Food processing Co.	7,912	30	50	20
Longan Export Product processing Co.	3,540	30	48	21

Source: Economics of Transition

## The expansion stage of the equitization program (1996-2005)

Following a successful pilot stage, the GoV launched the process for equitization in 1996. Initially (1996-1998), only 25 firms were added to the list of firms to be equitized. By the end of 2004, a total of 2,261 SOEs had completed equitization. Insiders (employees and management board) hold dominant positions in these equitized firms. The state's holding on average is just over one-third of the total issued shares of the firms. In the 1,500 firms equitized by end 2003, insiders, on average, held 54% of the shares while the state controlled only 38%. The remaining shares (8%), on average, belonged to outside investors.

**Figure 11: Number of equitized firms and their total capital**

Year	Number of equitized firm	Total capital (US\$m )
1993	2	1.3
1994	1	0.3
1995	2	0.7
1996	6	1.1
1997	4	3.5
1998	101	30.0
1999	254	82.1
2000	212	na
2001	204	na
2002	164	na
2003	611	na
2004	700	na
2005	846	na
Total	3,107	na

Source: Ministry of Finance (1999). The US\$/VND Exchange rate on 29 May 2006 is 15,970 VND per US\$

## Moving forward

The GoV had equitized 3,107 enterprises as of 2005 – the state holds over 50% stakes in 30% of these enterprises. The Steering Board for Enterprise Renewal and Development (SBERD) has plans to equitize 1,700 of the 2,700 state enterprises by 2010. Through 2005, 29 SOEs out of 34 listed companies underwent equitization. In 2005, SOEs earned total revenues of VND680tr, a 12% increase YoY, accounting for c.40% of the country's GDP.

Rapidly growing FDI has contributed to the decline in state ownership. As per the Foreign Investment Department (FID), Vietnam is projected to add c.US\$6.0bn of FDI in 2006 (cf. US\$5.8bn in 2005). Furthermore, approximately US\$2.4bn has been registered in Vietnam during 5M06, fulfilling 35% of this year's plan. However, over one-third of Vietnam's industrial output and a quarter of exports are still dominated by SOEs.

## Projects in the pipeline

### Electricity of Vietnam (EVN)

Electricity of Vietnam (EVN) is a state-owned corporation engaged in the generation, transmission, distribution and sale of electric power. EVN holds approximately 60% of the shares in the Song Hinh-Vinh Son hydroelectric plant and a 75% stake in both the Thac Ba and Pha Lai plants. Although the GoV recognizes that there is a likely chance of a delay in the equitization process due to obstacles such as policies, financial mechanism and current pricing structure, in the backdrop of the country's rapid economic growth (6.5% CAGR 2003-05E, with 8.3% YoY real GDP growth in 2005), rising demand for electricity and the GoV's firm support for the sector, it expects an increase in foreign investor participation in the equitization process.

### State-owned commercial banks

Vietnam's banking sector is dominated by four state-owned commercial banks which account for c.80% of the total assets in Vietnam's financial system. The SBERD expects the equitization of state commercial banks in Vietnam to be largely completed by 2010. The equitization plan aims for a reduction in the amount of state capital at banks such as the Bank for Foreign Trade of Vietnam (VCB) to 51% and an increase in foreign share of up to 30%.

**Mobifone and Vinaphone**

The Ministry of Post and Telematics (MPT) is currently seeking advice for equitizing two of the country's largest mobile phone service providers, Mobifone and Vinaphone. However, despite the GoV initiating the equitization process in early 2005, MPT is following a slow but cautious approach in valuing the assets of the companies. Mobifone expects the equitization process to be completed by 2007 with Vinaphone likely following suit. (Source: MPT)

# Investor interest

## Trading in Vietnam

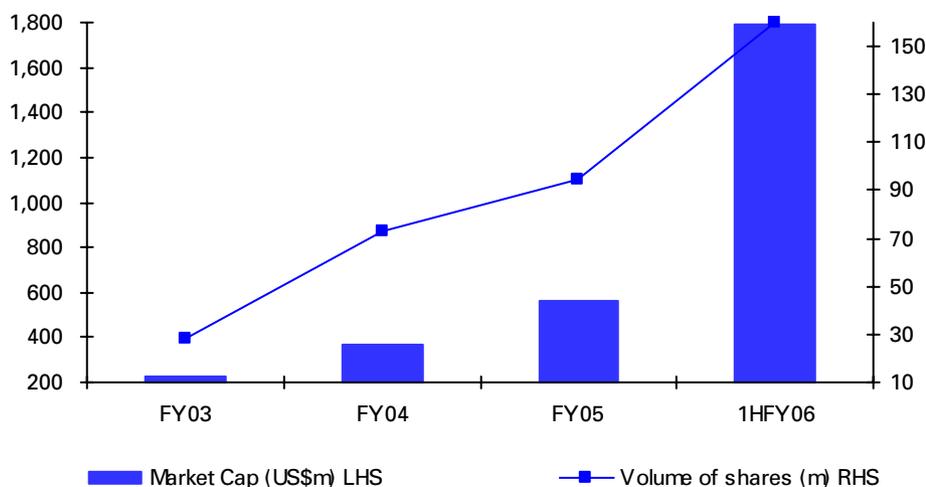
There are three main trading forums in Vietnam, mainly the Ho Chi Minh Security Trading Centre (HCSTC), the Hanoi Security Trading Centre (HSTC) and the OTC market.

## Ho Chi Minh Stock exchange (HCSTC)

### Background

Vietnam's primary trading centre, the Ho Chi Minh Security Trading Centre (HCSTC), was inaugurated on 20 July 2000. All listed stocks are traded in HCSTC. Initially, only two equity issues were listed – Refrigeration Electrical Engineering Joint Stock Corporation (REE) and Saigon Cable and Telecommunications Material Joint Stock Company (SACOM) – with a total combined market value of US\$16.8m.

**Figure 12: Market growth**



Source: BIDV Securities Company, as of 30 June 2006

Since December 2005 and for the first five months of 2006, the Vietnam Stock Index (VN Index) appreciated 65%. Market capitalization increased to c.US\$2.5bn as of 1 August 2006 from US\$16.8m in 2000 for 45 listed companies (cf. US\$144m for 22 companies in 2004). During 1H06, three companies were listed on the HCSTC vs. six companies in 2005. Vietnam's stock boom was backed by fast economic growth (c.8.4% in 2005) economic reforms allowing 49% foreign ownership in public companies and rapid equitization.

### Domestic vs. foreign investment

The Vietnam market is open to both local and foreign investors. The GoV has encouraged foreign portfolio investments from 2002, increasing the upper limit on foreign ownership of listed companies to c.49% in 2004 cf. 30% in 2002. Although foreign investment is not allowed in the oil and gas, military-related operations, mass media and telecom services sectors, 100% ownership is permitted in bond investments. Margin trading is not allowed for institutional investors.

**Trading system**

Trading mechanisms followed in HCSTC as of May 2006.

Periodic call auction: Three morning sessions per week from Monday-Friday, 8.30-11.00 am. The unit of trading is round lot (100 shares or multiples, the minimum face value of VND10,000). The trading band is +/- 5%.

The short-selling option is not available in HCSTC but private placements of shares are possible.

**Clearing and settlement system**

Money settlement is conducted through the Bank for Investment and Development. The settlement cycle is T+3 (HCSTC). There are three foreign banks licensed as foreign custodians to foreign individuals and institutional investors including Deutsche Bank. Companies listed can appoint only one domestic broker and custodian.

**Market capitalization**

HCSTC had 45 listed securities with a total market capitalization of c.US\$2.5bn as at 1 August 2006.

**Market indices**

The key Vietnam stock market index is the VN index. This index is a composition of 44 listed stocks and one securities investment fund certificate as of August 1 2006.

**Listing requirements**

Companies listed on the HCSTC should have a minimum capital of VND5bn and have recorded sound financial performance in the last two years. A minimum 20% of capital should be placed via auction with at least 50 outside shareholders. Listed companies enjoy an exemption of 50% tax during the first two years.

**Publishing requirements**

Listed companies have to publish their quarterly and annual reports. Although there is no time deadline for publishing quarterly reports, annual reports have to be published within 90 days. Companies which default will be reported to the SSC – fines are imposed for not publishing annual reports.

**Vietnam Securities Depository**

Vietnam Securities Depository (VSD) has started operations in Hanoi in July 2006. VSD's main function is to arrange for securities related activities such as registration, deposit, compensation and payments processing. VSD's introduction is likely to benefit the foreign investors as it would encourage the agent-based interactions with their counterparts in other countries. VSD is to operate as a separate entity under State Securities Commission, Vietnam (SSC). Moving forward it would be restructured as a joint stock company or limited liability company by 2008 (source: SSC)

The support services of VSD include:

- Provide the listed securities registration, deposit services or register trading at the securities trading centre, the other kinds of securities and valuable papers under the regulation of the law
- Provide currencies and securities clearing services traded at the securities trading center, make securities payment through securities deposit account of the customers and related organizations opened at the centre
- Provide transfer agents of the listed and unlisted securities for issuers and conduct the rights relating to the securities holders under the customers' authorization

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## Hanoi Stock exchange (HSTC)

### Background

HSTC Hanoi Securities Trade Center (HSTC) began operations in March 2005. HSTC handles auction, trading of stocks and bonds. Furthermore, it is responsible for managing Vietnam's OTC system where unlisted shares are traded. There are 11 registered equities in HSTC.

### Trading system

Trading system followed in HSTC as of May 2006 is Off-the-Book negotiated transactions: Put through deal session is from 10.30am to 11.00am (30 minutes after the official call auction is finished), applicable to block trades.

### Market capitalization

HSTC's total market capitalization is US\$1.2bn as of 30 June 2006. The bond market value is US\$3.6bn, accounting for 6.7% of 2005 GDP (source: State Securities Commission, Vietnam)

### Taxation

Bonds are exempt from income tax, except for an income tax of 20% on interest received from taxable bonds.

### Clearing and settlement system

Money settlement is conducted through the Bank for Investment and Development. The settlement cycle is T+ 2 for buying and selling of equities and T+ 1 for bonds.

Registered equities are auctioned on HSTC. The investor applies for the auction through HSTC. The result of the auction is posted in The State Securities Commission (SSC). Settlement is in the form of cash or fund transfer to designated beneficiary account. The title gets transferred in two days after the issuing company receives the list of holders from HSTC.

For unlisted securities settlement is via the broker after the purchase order is executed. Title transfer will be completed from one to three weeks.

### Listing requirements

Companies listed on the HCSTC should have a minimum capital of VND5bn and have recorded sound financial performance in the last one year. A minimum 20% of capital should be placed via auction with at least 50 outside shareholders.

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## The pure OTC market – broker to broker

In addition to the HCSTC and the HSTC there is a pure OTC market where over 2000 unregistered equities are traded broker to broker

### Transaction process (non IPO) for unregistered securities

#### Buy Transaction:

- Buyer sends an instruction to broker (i.e. bid/offer, quantity, price...)
- Broker locates the seller and notifies the buyer
- Buyer agrees to trade parameters and broker executes the trade
- Once trade is executed, payment is made\*
- Physical shares are transferred in one to three weeks

\*Following the execution of the order, two situations arise:

- The broker, under advice from buyer, and the seller ensure the legality of the seller's possession and proceed with the title transfer. The broker will then deliver the physical shares to the buyer
- The broker can be legally authorized, by way of contract, to execute the order and bear the title on behalf of the buyer.

**Sell Transaction:**

- Seller sends sell order instruction to broker
- Broker locates the buyer and notifies the seller
- Buyer agrees to terms of sale and broker executes the trade
- Once trade is executed, seller receives the funds on settlement date
- Physical shares are delivered same day

**Taxation**

Mutual funds are exempt from corporate tax during the first two years; enjoy a 50% tax reduction in the next three years and a preferential rate of 20% thereafter. However, foreign institutions and investors are exempt from VAT. Individual investors are currently exempt from tax on dividends, interest on bonds and capital gains tax as per Vietnam Law. There is no capital gain tax for individual investors. However, for foreign institutions located in Vietnam, capital gains are bundled into income tax at 28%. There is no capital gain tax for foreign institutions located outside Vietnam. There is no withholding tax for equity and fixed income. However, 10% withholding tax is applicable on interest earned on deposit/current account balances. Income and capital gains can be freely repatriated with provisions of supporting documents. However, there is a 5% tax on foreign repatriations on capital gains and dividends.

The local corporate tax rate is 28%.

**Double taxation treaties**

Vietnam has signed double taxation treaties with 44 different countries. (Table attached – Appendix).

**Future development plans**

The GoV plans to increase the HCSTC's and HSTC's combined market capitalization to c.15% of Vietnam's GDP by 2010 (cf.7.7% in 2005). SSC had outlined the following future development plans for the year 2006 in its annual report.

- Upgrading HCSTC into a stock exchange in 2006, having the facility to continuously match and execute orders.
- Linking HCSTC with other regional and international capital markets through to 2008 along with the development of central depository facility to hold investor shares.
- Upgrading of HSTC's, OTC market to an organized market having international standards.
- Improve the markets surveillance and corporate information disclosure activities on timeliness, accuracy and adequacy.

# Investing regulations and restrictions

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## Background

The State Securities Commission (SSC) is responsible for capital markets development and the issue and enforcement of regulations. In March 2004, the SSC was transferred under the management of the Ministry of Finance (MoF). The SSC is responsible for licensing securities companies, advisors, securities investment funds, fund managers and securities depositories and custodians.

The MoF oversees the issuance of government bonds and determines the amount of bonds to be issued. Further, it is responsible for drafting regulations on taxation accounting and administering their implementation.

The HCSTC and HSTC are legal, financially self-managed entities under the regulation and supervision of the SSC.

The State Bank of Vietnam (SBV) is the central bank of Vietnam. Its main functions are to formulate and implement the national monetary policy, stabilize currency, control inflation, improve socioeconomic development, manage the currency and banking activities and contribute to the development of the market structure. The SBV regulates foreign exchange for stock market activities and is responsible for exercising state control on borrowing foreign loans and loan repayment by enterprises and institutions in public as well as private sectors. Further, it is responsible for regulating credit institutions participating in the securities market.

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## Major investment policies and regulatory framework

### Foreign holding and investment

- Foreign organizations and individuals may hold a maximum of 49% of total shares, investment fund certificates of any organization listed or registered for trading.
- Foreign organizations and individuals purchasing or selling circulating bonds of a listed organization or organizations registered for trading in securities trading centers may hold an unlimited percentage of bonds.
- Under the law of Foreign Investment 2002, foreigners are allowed to set up a 100% owned subsidiary.

### Securities market and transactions

The SSC is the regulatory body for capital market investments, primarily responsible for regulating the issue of securities and businesses in securities markets.

A shareholder with a holding of 5% or more is considered a major shareholder. Although there is no cap of 5% ownership for each foreign investor, such ownership levels should be reported to the trading centers by custodians and subsequently declared/announced in the daily Stock Exchange Bulletin.

**Foreign exchange**

Foreign investors participating in investment of capital are permitted to repatriate profits once every quarter or once every six months, if they have already declared and paid corporate income tax for the fiscal year and as well as the corporate income tax provisionally payable.

Resident and non-resident foreigners are permitted to transfer foreign currency abroad upon demand. If foreigners have legal sources of income in Vietnamese Dong, they are permitted to purchase foreign currency from authorized banks to remit abroad.

The SBV allows commercial banks to enter into foreign exchange forward and swap transactions with maturities of 3 to 365 days. Parties are permitted to agree upon the exchange rates for forward and swap transactions between Dong and US Dollar. Vietnam, through the Vietcombank Securities Company, maintains a local currency swap agreement with the Bank of China. This agreement supports the use of local currencies for settlement of cross-border trade between the two countries.

**Foreign exchange loan**

**Private enterprises:** Private enterprises, both domestic and foreign, can obtain loans directly from foreign lenders, subject to supervision and monitoring by the SBV. Private enterprises must register loans with the SBV after signing loan agreements with the foreign lender.

**State-owned enterprises (SOEs):** SOEs are permitted to obtain foreign loans directly in the form of independent borrowings with responsibility for repayment to the foreign lender in accordance with the conditions and undertakings in the loan agreement. However, the government is not liable for debts arising from foreign loans directly obtained by SOEs, except for loans guaranteed by the government.

Local administrative authorities are not permitted to obtain foreign loans directly.

**Investor protection**

The legal rights and interests of foreign investors contributing capital to or purchasing shares in Vietnamese enterprises are guaranteed by the State of the Socialist Republic of Vietnam in accordance with the laws of Vietnam. Further, Vietnam has signed bilateral investment promotion and protection agreements with over 40 countries, which provide the legal framework for investor protection.

Additionally, there are stringent filing and reporting requirements for organizations listed with the HCSTC – when requested, companies have to file this information within 24 hours. Moreover, brokers' proprietary assets have to be segregated from their clients'/third parties' assets and brokerage firms have to execute investors' orders before their own.

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**Issues**

The Ministry of Foreign Affairs (MoFA) recognizes claims by foreign investors that the country's legal system is still unstable and unpredictable, with a number of inappropriate regulations such as limiting foreign labour below 3% and setting ceiling prices for technological transfers. It further recognizes that the bureaucratic procedures are cumbersome and that the project application and appraisal process is time consuming. (Source: Ministry of Foreign Affairs, Vietnam).

# Market dynamics

## Index performance

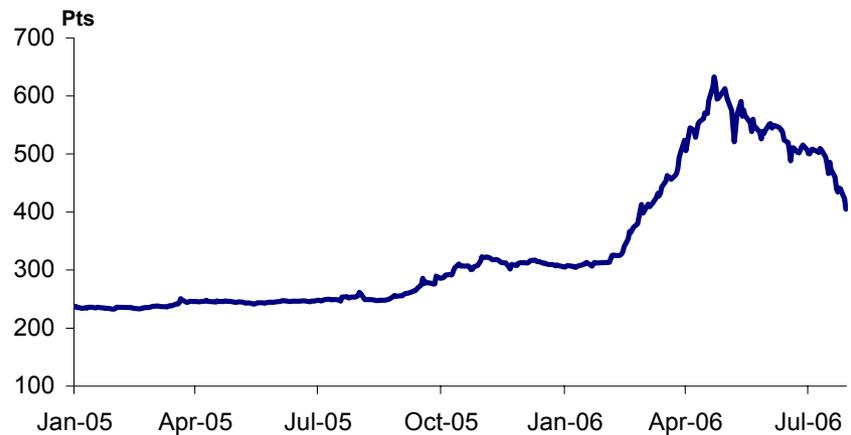
**Figure 13: VNINDEX historical performance**



Source: Ho Chi Minh Security Trading Centre, Bloomberg

The VNINDEX was launched on July 28 2000 and by April 25 2006 peaked at 632.69 points (+532.7%). The index has since corrected declining 227.82 points (-36.0%) to close at 404.87 points as of 1 August 2006. The correction to the index (as highlighted in Fig: 14), potentially due to cash being pulled back, is likely to offer better value to investors over the longer term.

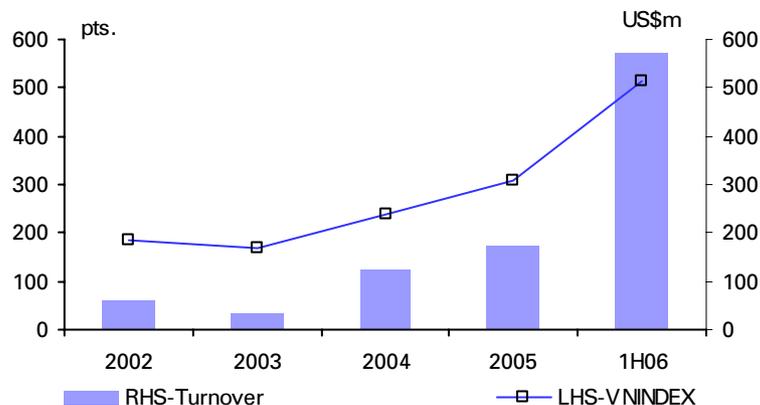
**Figure 14: VNINDEX performance since January 2005**



Source: Ho Chi Minh Security Trading Centre, Bloomberg

## Market performance

**Figure 15: VNINDEX performance vs. annual turnover**



Source: Ho Chi Minh Security Trading Centre, Bloomberg

HCSTC's broad price index, VNINDEX, appreciated at a three year CAGR of 18.7% over 2002-05. Annual turnover grew at a CAGR of 42.5% during the same period. VNINDEX appreciated 68.0% YoY during 1H06 with turnover growing 227.0% YoY for the same period.

## Key players

**Figure 16: Largest 10 companies by market capitalization as at 1 August 06**

Company	B'berg ticker	Key business description	Mkt cap (US\$m)	% of total Mkt cap
Sacom Bank	STB	Commercial banking	720	29.0
Vietnam Dairy Products	VNM	Manufacture of dairy products	637	25.7
Vinh Son - Song Hinh Hydropower	VSH	Generation of hydro power	208	8.4
General Forwarding & Agency Corp.	GMD	Warehousing, shipping & forwarding	133	5.4
Cables & Telecommunications Co.	SAM	Manufacture of telecom material	125	5.1
Kinh Do Corporation	KDC	Food processing	122	4.9
Refrigeration Electrical Eng. Corp.	REE	Engineering & real estate	111	4.5
Ho Chi Minh City Infrastructure	CII	Real estate	50	2.0
Binh Minh Plastics	BMP	Manufacturing plastic pipes & fittings	37	1.5
Vietnam Securities Investment Fund	VFMVF1	Mutual fund	35	1.4
Total			2,178	87.8

Source: Ho Chi Minh Security Trading Centre, as at 1<sup>st</sup> August 2006

HCSTC had 45 listed securities with a total market capitalization of c. US\$2.5bn as at 1 August 2006. The top 10 companies had a combined c. US\$2.2bn (c. 88%) market capitalization. Saigon bank topped the list with market capitalization of c.US\$720m (c.29.0%), followed by Vietnam Dairy products with c.US\$637m (c. 25.7%). Cables & Telecommunications Material and Refrigeration Electrical Engineering were the first companies to get listed on the exchange in 2000.

## New listings during July 06

**Figure 17: New companies listed during July 2006**

Company	B'berg ticker	State control (%)	Market capitalization 01-08-06 (US\$m)
Saigon Thuong Tin Commercial Bank	STB	0.0	719.6
Vinh Son - Song Hinh Hydropower	VSH	60.0	207.9
Binh Minh Plastics Joint Stock Company	BMP	39.0	37.3
Songda Urban & Industrial Zone Investment And Dev	SJS	51.0	33.9
Vinafco Joint Stock Corporation	VFC	12.6	9.0
Full Power Joint Stock Company	FPC	0.0	4.6
Vien Lien Joint Stock Company	UNI	0.0	1.6
		Total	1014.0

Source: Ho Chi Minh Security trading centre, as at 1<sup>st</sup> August 2006

Seven new companies were listed on the HCSTC during the month of July 2006 resulting in a new market capitalization of c. US\$1.0bn as of 1 August 06. Saigon Bank (STB), a leading commercial bank in Vietnam, was the largest company listed in July 2006, with a market capitalization of US\$720m. Vinh Song Hydro Power Company (VSH) was the second largest company listed in July 2006 with a market capitalization of US\$210m.

## Most traded companies

**Figure 18: Most traded companies (US\$m)**

Company	Business description	Turnover 2005	% of total turnover	Turnover 1H06	% of total turnover
Vietnam Dairy Products	Food & beverages	n.a.	n.a.	78.6	15.9
Refrigeration Electrical Engineering	Engineering & real estate	30.3	17.3	78.4	15.9
Vietnam Securities Investment Fund	Mutual fund	16.1	9.3	51.0	10.3
Cables & Telecom Material	Manufacturing of telecom cables	10.8	6.2	36.1	7.3
General Forwarding & Agency	Warehousing & shipping	9.9	5.7	32.9	6.7
Tay A (Vietnam) Electric Wire & Cable	Manufacture of cables & wires	n.a.	n.a.	20.8	4.2
Bien Hoa Confectionery	Manufacturing of confectionery	11.6	6.6	20.0	4.1
Binh Thanh Import - Export Production	Aquatic products & real estate	4.6	2.6	12.6	2.6
Hapaco Corporation	Paper manufacture & gen. trade	3.9	2.2	12.0	2.4
Savimex Corporation	Conglomerate	5.6	3.2	12.0	2.4
Hoa An Joint Stock	Minerals & construction	5.8	3.3	11.8	2.4
Hanoi Maritime Holding	Transport & maritime services	9.5	5.4	10.7	2.2
Angiang Fisheries	Processing aquatic products	6.7	3.9	10.6	2.1
Long An Food Processing Export	Processing cashew nut products	11.4	6.5	8.9	1.8
	Total	126.2	72.3	396.4	80.4

Source: Bloomberg, Note: 1H06 includes only up to 21 June 2006. n.a. indicates that the stock has not traded in 2005

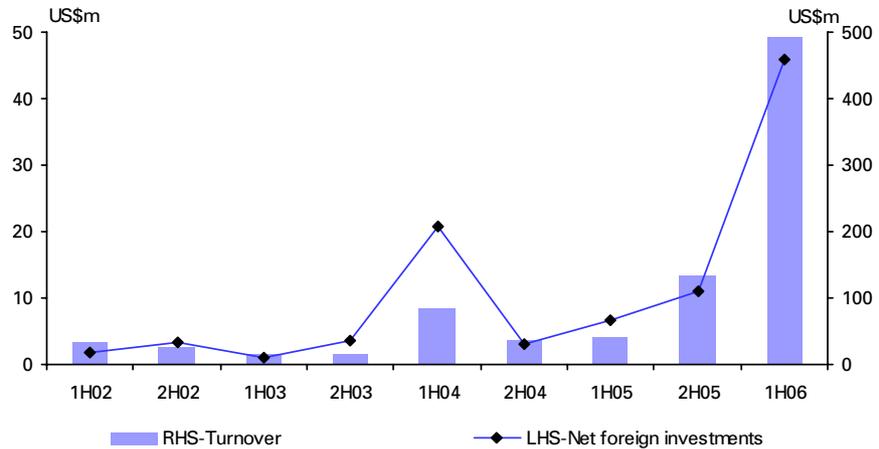
HCSTC's total turnover was c. US\$493m during 1H06 cf. c. US\$37m in 1H05. The top 14 companies contributed US\$396m (c. 80%) of turnover in 1H06.

Vietnam Dairy Products (VNM VN) listed on 28 December 2005, recorded the highest turnover of c.US\$78.6m. Refrigeration Electrical Engineering (REE VN) recorded the second highest turnover of US\$78.4m in 1H06.

The five largest manufacturing companies – Refrigeration Electrical Engineering (REE VN), Cables & Telecommunications (SAM VN), Bien Hoa Confectionery (BBC VN), Binh Thanh Import (BTC VN) and Hapaco Corporation (HAP VN) – recorded a combined turnover of c. US\$159m (c. 32% of total market turnover) in 1H06.

## Increasing turnover and foreign investment

**Figure 19: Net foreign investment vs. turnover**

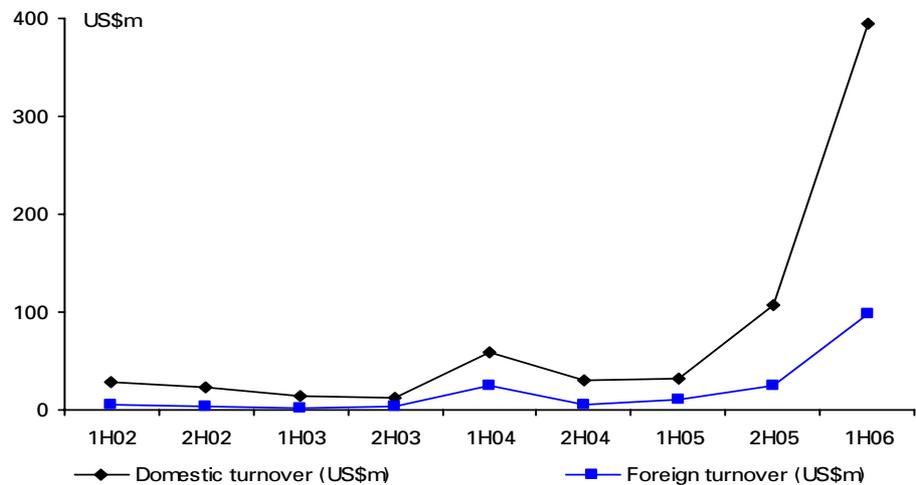


Source: Ho Chi Minh Security Trading Centre, Note: Net foreign investments for the period = Total purchases of equities – total sales of equities

HCSTC recorded the highest turnover in equities for any given six month period of c. US\$493m in 1H06 (+272% YoY). 1H06 turnover accounted for 56% of the cumulative turnover for 2002-1H06.

HCSTC's net foreign investment inflow was c.US\$46m (+61% YoY) in 1H06, accounting for 47% the total cumulative turnover of c.US\$97m for the period 2002-1H06.

**Figure 20: Foreign participation in turnover**



Source: Ho Chi Minh Security Trading Centre

Foreign trades amounted to c. 20% (US\$98m) of total turnover in 1H06. The largest foreign participation of c. 30% of turnover (US\$25.9m) was reported in 1H04. Foreign trading constituted an average 19% of total turnover during 1H02-1H06.

## Performance of stocks

**Figure 21: Price performance to date (1 Aug 2006)**

Company	B'berg ticker	Price 31-12-04 VND'000	Price 31-12-05 VND'000	Price 01-08-06 VND'000	Capital Gains (%) during 2006	Capital Gains (%) during 1H06	Mkt Cap US\$m 01-08-06
Ry Ninh li Hydroelectric	RHC	n.a.	4.3	30.9	n.a.	808.2	6.1
Vietnam Securities Investment Fund	VFMVF1	9.2	11.0	18.9	19.6	178.9	34.9
Refrigeration Electrical Engineering	REE	24.1	34.5	64.0	43.2	137.5	111.1
Binh Trieu Construction & Engineering	BTC	14.9	8.3	13.9	(44.3)	102.3	1.1
Kinh Do Corporation	KDC	48.8	44.2	66.0	(9.4)	99.1	122.0
Hoa An Joint Stock	DHA	32.4	42.7	51.0	31.8	95.4	12.1
Cables & Telecommunications Material	SAM	37.0	47.0	72.5	27.1	92.4	125.4
Saigon Hotel	SGH	13.5	17.2	33.2	26.8	86.5	3.6
Hapaco Corporation	HAP	24.5	22.7	28.1	(7.3)	79.6	6.7
North Kinhdo Food	NKD	26.2	45.0	61.0	72.0	73.2	31.6
Halong Caned Food	CAN	15.3	17.2	22.1	12.4	71.4	4.8
Bien Hoa Confectionery	BBC	17.0	21.7	27.6	27.7	71.3	9.5
Angiang Fisheries	AGF	35.9	42.0	66.5	17.0	71.3	26.2
Tay A (Viet Nam) Electric Wire & Cable	TYA	n.a.	29.6	37.1	n.a.	67.3	9.6
Phuong Nam Cultural	PNC	15.9	16.2	24.4	1.7	66.5	4.5
Petroleum Mechanical	PMS	16.5	15.8	22.2	(4.2)	66.3	4.4
620 Chau Thoi Concrete	BT6	32.0	31.7	38.2	(0.9)	63.9	13.8
Hanoi P&T Construction & Installation	HAS	28.0	33.0	32.9	17.9	62.0	4.1
Bimson Packing	BPC	17.0	16.0	20.1	(5.9)	56.1	4.7
Nhi Hiep Brick-Tile	NHC	n.a.	24.0	30.5	n.a.	55.7	2.5
Telecommunications Joint Stock	VTC	33.5	32.9	34.4	(1.8)	54.9	5.1
Danang Plastic	DPC	9.0	12.1	14.8	34.5	54.4	1.4
Viet Nam Dairy Products	VNM	n.a.	53.0	65.0	n.a.	52.9	636.7
Hà Tien Transport	HTV	n.a.	17.0	22.3	n.a.	51.6	6.6
Bach Tuyet Cotton	BBT	10.7	10.8	12.5	1.0	50.8	5.3
Khanh Hoi Import Export	KHA	23.9	21.4	20.0	(10.3)	49.2	4.1
Thien Nam Trading Import Export	TNA	29.8	30.5	42.7	2.3	47.4	3.4
Saigon Fuel	SFC	21.6	28.0	35.8	29.7	46.3	3.7
Seafood Joint Stock	TS4	17.5	25.6	24.3	46.3	44.4	4.5
Savimex Corporation	SAV	31.1	31.5	34.6	1.3	38.9	13.9
Southern Seed	SSC	30.8	44.5	47.2	44.7	38.1	17.4
Binh Thanh Import - Export Production	GIL	32.6	32.3	37.5	(0.9)	38.0	10.5
Hanoi Maritime Holding	MHC	18.9	22.9	23.6	21.0	28.7	9.7
Saigon Beverages	TRI	20.8	28.0	24.5	34.6	17.1	6.9
Long An Food Processing Export	LAF	34.3	20.0	16.0	(41.7)	15.9	3.8
Transforwarding & Warehousing	TMS	32.1	43.5	42.1	35.5	11.4	11.1
General Forwarding & Agency	GMD	52.0	70.1	62.0	34.6	3.5	132.9
Hochiminh City Infrastructure Inv.	CII	n.a.	42.8	27.2	n.a.	(19.8)	50.3
Vinh Son-Song Hinh Hydropower	VSH	n.a.	n.a.	27.0	n.a.	n.a.	207.9
Songda	SJS	n.a.	n.a.	110.0	n.a.	n.a.	33.9
Binh Minh Plastics Joint Stock Company	BMP	n.a.	n.a.	56.5	n.a.	n.a.	37.3
Vinafco Joint Stock Corporation	VFC	n.a.	n.a.	26.2	n.a.	n.a.	9.0
Saigon Thuong Tin Commercial Bank	STB	n.a.	n.a.	61.5	n.a.	n.a.	719.6
Full Power Joint Stock Company	FPC	n.a.	n.a.	39.0	n.a.	n.a.	4.6
Vien Lien Joint Stock Company	UNI	n.a.	n.a.	26.6	n.a.	n.a.	1.6

Source: Ho Chi Minh Security Trading Centre. Note: n.a. indicates the stock has not been listed as at given date

Ry Ninh Li Hydroelectric (RHC VN) was the best performer in 1H06 with a price appreciation of c.808% since its listing on 16 June 2006. It has a market capitalization of c.US\$6.1m and is in the business of power generation and water distribution.

Refrigeration Electrical Engineering's (REE) price appreciated c.137% in 1H06. REE is in the business of engineering and real estate and had a market capitalization of c.US\$111m as of 1 August 2006.

Cables & Telecommunications Material's (SAM) price appreciated c.92% during 1H06. SAM is in the business of manufacturing telecommunication cables, and had a market capitalization of c.US\$125m as of 1 August 2006.

## State ownership

**Figure 22: Largest 10 stocks owned by the GoV as of 1H06**

Company	Sector	Mkt Cap US\$m 01-08-06	Gov holding %	Total govt holding (US\$m)
Viet Nam Dairy Products	Food & beverage	637	50	319
Vinh Son - Song Hinh Hydropower	Power generation	208	60	125
Cables & Telecom Material	Manufacturing	125	49	61
General Forwarding & Agency	Transport	133	14	18
Songda Urban & Industrial Zone	Infrastructure	34	51	17
Binh Minh Plastics	Manufacturing	37	39	15
Refrigeration Electrical Engineering	Manufacturing	111	10	11
620 Chau Thoi Concrete	Construction	14	50	7
Angiang Fisheries	Food & beverage	26	20	5
Southern Seed	Food & beverage	17	20	3
	Total			582

Source: Ho Chi Minh Security Trading Centre

The GoV continues to hold substantial stakes in many of the largest stocks quoted in the HCSTC; it had a total stake of 24% (market value of US\$582m) in the 45 companies listed on the HCSTC as at 1 August 2006. The highest state ownership in any single company was 60%, which was in Vinh Son - Song Hinh Hydropower Joint Stock Company.

## Institutional holding

Institutional investors' holdings amounted to c.30% of the total HCSTC ownership in 1H06 with the Vietnam Opportunity Fund (VOF) leading the list. As of 2005, there were c.52,000 registered trading accounts, of which 750 were foreign-owned and 350 were owned by institutional investors.

# Market growth opportunities

## Growth and liquidity

**Figure 23: Global indices growth and liquidity**

	Blue-chip indices growth		Liquidity	
	Growth 1Q06 QoQ (%)	CAGR 03-05 (%)	1Q06 Annualized turnover : Market Cap (x)	2005 Turnover : Market cap (x)
HCSTC	61.0	18.7	0.6	0.1
Karachi SE	23.5	46.2	1.6	2.9
Mumbai	20.0	26.9	0.4	0.3
Shenzhen SE	20.0	(8.6)	1.7	1.3
National Stock Exchange India	19.9	22.8	0.7	0.6
Colombo SE	17.4	13.6	0.2	0.2
Jakarta SE	14.8	29.4	0.4	0.5
Shanghai SE	12.6	(12.5)	1.1	0.8
Hong Kong Exchanges	6.2	8.8	0.6	0.4
Tokyo SE	5.6	19.0	1.4	1.0
Philippine SE	4.7	20.6	0.2	0.2
Bursa Malaysia	3.0	6.5	0.32	0.3
Thailand SE	2.8	(3.9)	1.0	0.8

Source: World Federation of Exchanges, HCSTC. Notes: The blue-chip index figures were not available Vietnam, Malaysia, Korea and Thailand and the broad index was used.

The HCSTC price index, VNINDEX, outperformed all key markets in Asia-Pacific with c.61% YoY growth in 1Q06. VNINDEX grew at a CAGR of 19% during 2002-05. HCSTC's annualized turnover to market capitalization ratio, too, improved in 1Q06 to 0.6x cf. 0.1x in 2005.

## Earnings based valuation

**Figure 24: Historical PE multiple**

	PER x (02-04) Min	PER x 02-04) Max	PER x end 2005
HCSTC	3.2	6.6	7.8
Thailand SE	4.9	13.7	9.4
Colombo SE	7.5	12.1	12.4
Jakarta SE	7.9	9.1	12.5
Karachi SE	10.5	12.0	14.4
Philippine SE	14.4	19.2	14.8
Bursa Malaysia	19.0	65.4	15.2
Hong Kong exchanges	12.2	19.0	15.6
Mumbai SE	15.0	17.6	16.2
Shanghai SE	24.2	37.7	16.3
Shenzhen SE	24.6	39.8	16.4
National SE India	14.6	19.2	17.2
Tokyo SE	52.4	122.1	50.4

Sources: World Federation of Exchanges, MMT, Bloomberg, DB estimates. Notes: Historical PE figures for Vietnam are available only from 2003

During 2002-04, HCSTC traded between a band of 3.2x and 6.6x of its total earnings, the lowest among all other Asian exchanges (HCSTC commenced only in 2000). The Thai Stock Exchange traded at the next lowest PER of 4.9 x. during 2002-04.

However, as at the end of 2005, HCSTC traded at PER of 7.8x, well above its historical band. HCSTC recorded the highest PER of 21.4x on 25 April 06. It traded at a PER of 17.9x as at 30 June 2006.

## Assets basis

**Figure 25: Performance based on book value**

	2003	2004	2005	30-06-2006
No. of listed companies (31 Dec)	22	27	33	38
Market capitalization (US\$m)	228	366	565	1,750
Book value (US\$m)	289	297	469	469*
Total earnings (US\$)	71.7	72.9	97.8	97.8*
PER (x)	3.2	5.0	5.8	17.9
PBV (x)	0.8	1.2	1.2	n.a.
ROE (%)	25	25	21	n.a.

Source: HCSTC, Bloomberg, DB research estimates, \*Note: Book value and earnings for 2006 are estimated at 2005 level

Total listed companies in HCSTC increased to 38 in 1H06 vs. 33 in December 2005. On an average, five new companies were listed every year during 2003-05. Total market value amounted to 1.2x the book value in 2005 cf. 1.2x in 2004. ROE declined to 21% in 2005 cf. 25% in 2004.

## Exposure to the economy

**Figure 26: GDP to market capitalization ratio (2005)**

	Gross domestic product (US\$bn)	Market capitalization (US\$bn)	Mkt Cap: GDP (%)
HCSTC	52.5	0.6	1.3
Shenzhen SE	1,790.0	115.7	6.5
Shanghai SE	1,790.0	286.2	16.0
Colombo SE	21.5	5.7	26.6
Jakarta SE	270.0	81.4	30.2
Philippine SE	90.3	39.8	44.1
Karachi SE	102.0	46.0	45.1
Thailand SE	177.0	123.9	70.0
National Stock Exchange India	720.0	516.0	71.7
Bombay SE	720.0	516.0	71.7
Tokyo SE	4,848.0	4,572.9	94.3
Bursa Malaysia	121.0	180.5	149.2
Hong Kong Exchanges	180.0	1,055.0	586.1

Source: World Federation of Exchanges, Bloomberg, Notes: GDP for Vietnam in 2005 is not yet published and assumed to be at a similar level to 2004

Total HCSTC market value was US\$565m as at end 2005, which was only 1.3% of Vietnam's GDP of c.US\$52.5bn for the same year. HCSTC's total market capitalization increased to c.US\$1.75bn as at 30 June 2006, which was c.4% of Vietnam's GDP. Vietnam's market capitalization to GDP ratio of 1.3% was the lowest in Asia in 2005. The relative illiquidity of the Vietnam market in terms of the stock market's exposure to the economy indicates significant potential for greater expansion.

# Foreign exchange

## Foreign exchange history

The Vietnamese Dong (VND) is the official currency of the Democratic Republic of Vietnam since 1954. Although the exchange rate was pegged to the US\$, in 1961 however, given the impact created by the ongoing Soviet currency reforms, the Vietnamese Dong was also aligned to the Rubble as well. Vietnam operated under a dual currency regime corresponding to the north and south of the country: the North Vietnam Dong (VND) and the South Vietnam Dong (SD). In 1973, a highly regulated, floating effective rate for the VND was established. Despite the unification of the two currencies in 1976, the dual currency structure still continued with the only transactions permitted between the two regions being officially authorized trade and travel. Post-unification, one currency, the VND, was introduced. All exchange control is administrated by the State Bank of Vietnam (SBV) based in Hanoi, with a representative office in Ho Chi Minh City. On 3 May 1978, a uniform currency was introduced.

Following the reunification of North Vietnam and South Vietnam, the newly integrated GoV adopted a multiple exchange rate system which included:

- An official rate
- A commercial rate - for foreign trade purposes and export receipts
- A non-commercial rate - for foreign remittances and tourism
- A convertible rate - for transactions with the convertible currency area
- An effective rate - A managed floating rate linked to a basket of currencies
- An auction rate - for all other transactions

**Figure 27: FOREX historical timeline**

	Key changes to the exchange rate regime	VND per US\$
Jan 1970	The North Viet Nam Dong (VND) became the monetary unit of the Democratic Republic of Viet Nam, replacing the Indochinese Piastre that was equal to 32 Dongs.	1,120.00
July 1976	North and South Viet Nam were officially united under the name of the Socialist Republic of Viet Nam.	n.a.
Sept 1976	Floating Effective Rate for the South Viet Nam Dong was established. The State Bank of Viet Nam (SBV) was authorized to issue new Viet Nam Dong and to withdraw old Dong from circulation.	n.a.
Sept 1985	The Effective Rate was abolished and a Basic (Official) Rate of VND15 per US\$ was established, as against a rate of D12.06=US\$ for the old Dong. The Basic rate was subsequently abolished in 1987.	15.00
Aug 1991	GoV foreign exchange centre was established in Ho Chi Minh City. In November, another foreign exchange centre was established in Hanoi.	n.a.
Oct 1994	The Interbank foreign exchange market began operation, permitting spot and forward transactions in 6 currencies.	11,047.89
Aug 1998	The SBVN devalued the Dong's Central Rate by 10% and abolished the upper limit of the exchange rate band establishing a "one-sided band" of 7%, instead of the previous band of plus and minus 10%.	13,925.83
Feb 1999	Exchange rate system was reclassified as a crawling peg*.	13,882.07

Source: World Currency Yearbook. (WCY)

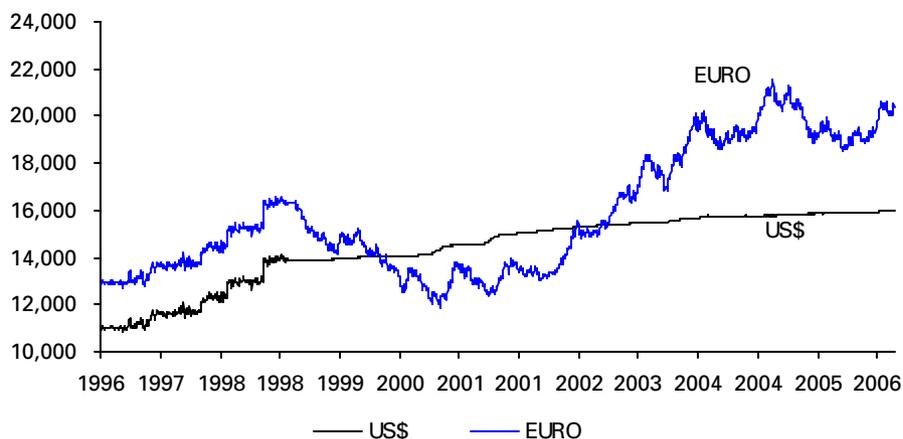
In 1987, the basic or official rate was abolished and in 1989, the commercial and non-commercial Dong (VND) merged, becoming the Convertible Currency Rate (CCR). This new rate governed all transactions within the convertible currency area. In 1990, the effective rate replaced the CCR given the GoV's move towards a free market economy. In August 1991, the SBV set up a new foreign exchange center in Ho Chi Minh City and another in Hanoi in November. These foreign exchange centers were responsible for setting the official rates. In 1994, the inter-bank foreign exchange market began operations and currency controls were relaxed. The SBV permitted spot and forward transactions in six currencies and widened the trading band for the Dong in the inter-bank market. On 25 February 1999, the SBV announced that there would be only one Dong/US\$ exchange rate, based on the weighted average actual transaction rate in the inter-bank foreign currency market between the Vietnam Dong and the US\$, with flexibility afforded by a + / - 0.25% trading band. Thus, the exchange rate system was reclassified as a crawling peg in 1999.

(\*An automatic system for revising the exchange rate, involving establishing a par value around which the rate can vary, up to a given percent. The par value is revised regularly according to a formula determined by the SBV – source: www.specialinvestor.com).

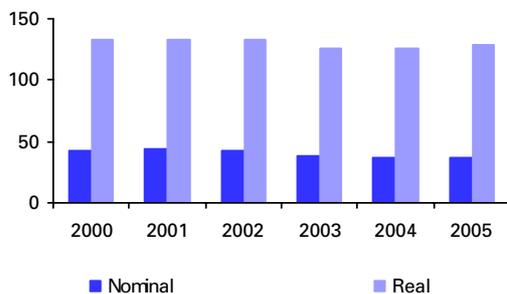
### Exchange rate performance

The liberalization of the exchange rate regime in Vietnam has meant that the SBV only influences the exchange rate through the money market and monetary policy instruments. However, despite the exchange rate witnessing marginal movement (given the narrowness of the exchange rate trading band imposed by the SBV) against the US\$ in the past two years, it has depreciated in nominal terms by 1% in 2005. This has exacerbated the fear of the negative impacts of the exchange rate on the competitiveness of Vietnam's exports, especially for manufactured goods with a high labour component.

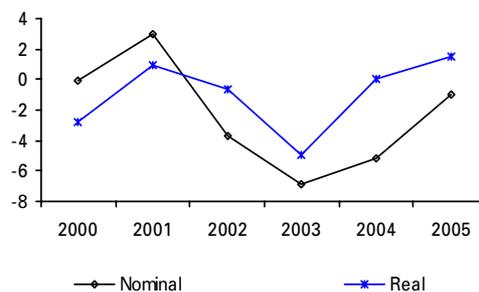
**Figure 28: Exchange rate in VND**



Source: Deutsche Bank, 2006 – till date

**Figure 29: Eff. FX rates (12M Ave 1997 = 100)**

Source: IMF Vietnam Country Report

**Figure 30: Annual % change ( - depreciation)**

Source: IMF Vietnam Country Report

The VND appreciated 0.8% YoY against the US\$ and 5.2% YoY against the € as of 12 July 2006. An increase in food and energy prices helped push inflation up to an average of 8.3% in 2005. The Asian Development Bank (ADB) has stated that the current depreciation in the real and nominal exchange rates is likely to be a result of the inflationary environment. However, the long-term performance of Vietnam's VND-US\$ exchange rate has remained relatively stable given the introduction of the managed float exchange rate regime. The exchange rate of the €, however, has increased significantly over the past five years with the compound average depreciating rate at 34.6% over the period due to the € gaining ground against the US\$.

**Figure 31: VND Forex CAGR's, %, + depreciation / - appreciation**

	Vs US\$	Vs Euro	Key reasons
1997 – 2000	6.7	-0.5	Asian financial crisis
2000 – 2003	3.2	9.4	Introduction of managed float, and recovery of economy
2003 – July 2006	1.0	5.1	Expansion of trading band for exchange rate from 0.1% to 0.25%

Source: Deutsche Bank

Vietnam's 2005 real effective exchange rate (REER), an indicator of trade competitiveness, appreciated marginally against a basket of currencies, given higher domestic inflation. However, the negative impact on Vietnam's total export market, in real terms, was kept to a minimum, given that Vietnam's export competitiveness exhibited an improvement over the period concerned, as a result of which Vietnam (being a net oil exporter) benefited from the increase in global crude oil prices. However, without any refining capacity of its own, Vietnam has to import all its refined oil requirements, somewhat dampening the net positive impact of global oil price increases.

## Foreign investment

The foreign investment sector contributed c.15.9% to Vietnam's GDP in 2005 with a share of 57.4% in total merchandise exports (34.5% excluding crude oil) and 12% of GoV's total budget revenues. Of the 43 countries with FDIs in Vietnam in 2005, Asia made up c.50.6% of total registered capital and Europe comprised c.21.7% while the US contributed only 3.6%.

In 2005, FDI, including both newly registered and extended FDI capital, totaled US\$5.9bn, an increase of 36% YoY and the highest since 1997. Therefore, from 1988 to end 2005, cumulative FDI commitments totaled US\$51.9bn. With a total of 509 projects extending their capital during 2005, total realized FDI amounted to VND53tr, comprising 16.3% of total investments.

**Figure 32: Structure of investment %**

	2001	2002	2003	2004	2005
<b>State Investment</b>	<b>59.8</b>	<b>56.3</b>	<b>54.0</b>	<b>53.6</b>	<b>51.5</b>
- State budget	26.7	25.0	24.0	25.1	22.7
- State credit	16.8	17.6	16.9	16.5	9.2
- Investment of SOEs	10.6	7.8	9.3	9.1	15.3
- Other mobilized funds	5.6	6.0	3.9	2.9	4.3
<b>Non State Investments</b>	<b>22.6</b>	<b>26.2</b>	<b>29.7</b>	<b>30.9</b>	<b>32.2</b>
<b>FDI</b>	<b>17.6</b>	<b>17.5</b>	<b>16.3</b>	<b>15.5</b>	<b>16.3</b>

Source: GSO (2005), Ministry of Planning and Investment

In 2005, 41 out of the 65 provinces received FDIs, of which five received c.70% of total registered capital – namely Hanoi (31.2%), Ba Ria-Vung Tau (17.8%), Dong Nai (10.7%), Ho Chi Minh City (10.2%) and Binh Duong (17.8%). The largest sectors for licensed FDI were industry and construction, which, combined, received c.42% of total FDI commitments in 2005. Other sectors attracting FDI were oil and gas, fisheries, agriculture and forestry, transportation/communications, and hotels and tourism.

**Figure 33: Foreign Investment by country of origin, US\$m**

	2000	2001	2002	2003	2004	2005
Japan	140	275	311	186	858	945
Korea	94	180	439	522	493	929
Taiwan	443	583	535	793	1,074	753
SEA	162	417	473	289	617	612
Hong Kong SAR	102	243	211	196	272	562
British Virgin Islands	136	126	174	328	257	376
United States	126	127	172	123	107	333
Other	1,494	1,312	653	723	824	2283
<b>Total</b>	<b>2,697</b>	<b>3,263</b>	<b>2,968</b>	<b>3,160</b>	<b>4,502</b>	<b>6,794</b>

Source: IMF Vietnam Country Report, 2006, SEA – South East Asia (Singapore, Thailand, Malaysia)

The single largest contributor to Vietnam's 2005 foreign investment inflow was Japan with a 10.2% YoY increase in direct investment. In absolute terms, Japan's 13.9% contribution to Vietnam's 2005 total FDI amounted to US\$945m, whilst Korea contributed 13.7% to total FDI at US\$929m (+88.5% YoY). Taiwan's investment presence in Vietnam, however, decreased by c.30% YoY in 2005 to US\$753m as did the SEA's (Singapore, Thailand and Malaysia) with direct and private investment into Vietnam decreasing marginally to US\$612m in 2005 *cf.* US\$617m in 2004. The increase in FDI of US\$2.3bn also supported the balance of payments, resulting in an increase in estimated gross official reserves to US\$8.0bn in 2005 (equivalent to approximately 2.6 months of imports).

**Figure 34: Total foreign investment by sector, US\$m**

By Sector	Approved US\$m	Realized US\$m	Proportion of realized investment (%)	Utilization (%)
Industry	24,782	11,578	42.9	46.7
Oil & Gas	1,892	4,566	16.9	241.3
Hotels & Tourism	3,864	2,335	8.7	60.4
Construction	3,996	2,321	8.6	58.1
Offices & Apartment.	4,083	2,118	7.9	51.9
Agriculture & Forestry	3,422	1,661	6.2	48.5
Transport/Telecom	2,917	736	2.7	25.2
Banking & Fin.	788	643	2.4	81.6
IPZ/EPZ	1,026	527	2.0	51.4
Health & Education	904	283	1.0	31.3
Aquaculture	308	155	0.6	50.3
Buildings - urban areas	2,552	51	0.2	2.0
Total	50,535	26,963		53.4

Source: IMF Vietnam Country Report, 2006

## Foreign remittances

Similar to other developing countries, foreign remittances remain a significant source of foreign exchange in Vietnam. There has been a significant rise in foreign remittances to US\$3.2bn in 2005 from US\$31m in 1991 (14 year CAGR of 39.3%). The GoV estimates that remittances could reach US\$5bn in 2020.

There are two distinct classes of remittance sources to Vietnam: temporary migrant workers and Viet Kieu. Viet Kieu are expatriates who have been living abroad for a longer period of time, many having left Vietnam following socio-political upheavals. Vietnamese authorities facilitate the overseas travel of temporary migrant workers and have them establish bank accounts for remitting money home. Temporary migrant workers tend to remit smaller amounts more frequently for daily family consumption, while Viet Kieu typically remit larger amounts less frequently for investment and business purposes as well as for special holidays (source: World Bank, the Canada-Vietnam Remittance Corridor Lessons on Shifting from Informal to Formal Transfer Systems).

## Balance of payments

The current account balance was -US\$1.4bn in 2004. Vietnam last registered a slightly positive current account balance in 2001. The increasing deficit was not, however, attributable to the increase in global crude oil prices despite a 46.4% YoY increase in Vietnam's oil import bill. The significant increase in Vietnam's non-oil import bill, fuelled by an increase in economic activity, is the main driver of the trade deficit.

**Figure 35: Balance of payments, US\$m**

	2000	2001	2002	2003	2004	2005*
Current account (ex. Official transfers)	506	520	-551	2,085	-1,874	n.a.
Current account balance	642	670	-419	1,946	-1,700	n.a.
Trade balance	-1,100	-1,200	-3,000	-5,200	-5,500	-4,700
Exports f.o.b.	14,500	15,000	16,700	20,100	26,500	32,200
- of which oil	3,503	3,126	3,270	3,821	5,666	7,400
Imports f.o.b.	15,600	16,200	19,700	25,300	32,000	36,900
- of which oil	2,016	1,828	2,017	2,433	3,571	n.a.
Non factor services (net)	-615	-572	-648	-778	-879	n.a.
- of which payments	3,310	3,382	3,596	4,050	4,739	n.a.
Private transfers (net)	1,476	1,250	1,898	2,239	2,484	n.a.
Gross official reserves	3030	3,387	3,692	5,620	6,314	n.a.
Capital account balance	-526	-476	883	4,097	2,379	n.a.

Source: State Bank of Vietnam, \*Provisional

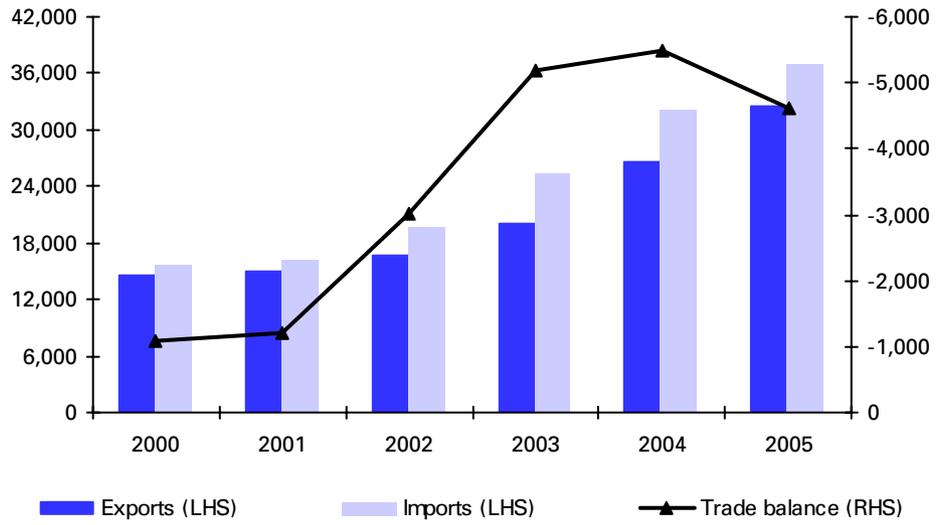
**Figure 36: Current and capital account breakdown, US\$m**

	2001	2002	2003	2004	2005*
Current Account	682	(604)	(1,878)	(926)	130
- Balance of merchandise trade	481	(1,054)	(2,528)	(2,256)	(897)
- Balance of trade in services	(572)	(750)	(778)	(872)	(845)
- Net remittance	1,250	1,921	2,239	3,093	3,175
Capital Account	220	1,980	3,305	2,753	3,179
- FDI	1,300	1,400	1,450	1,610	1,850
- Portfolio of investments	-	-	-	-	750
Balance of payments	40	357	2,151	883	1,900
Errors	(862)	(1,019)	724	(944)	(1,409)

Source: Central Institute of Economic Research, \*Provisional

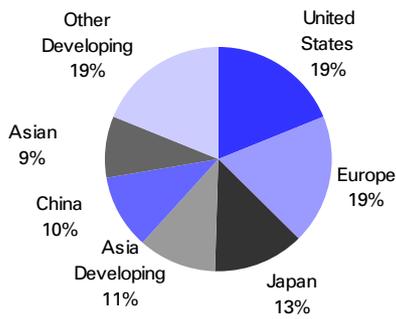
Vietnam's 2004 current account deficit (ex. official transfer) of US\$1,874m is attributable to the 8.6% YoY expansion in the trade deficit to US\$2,368m and the 13.0% YoY increase in net outflow under the services account (amounting to US\$879m). In 2005, Vietnam's trade deficit improved marginally, reducing US\$0.9bn to US\$4.6bn, on the back of increased earnings from crude oil exports. Similarly, given GoV's goal of attaining full accession to WTO, Vietnam has witnessed a further liberalization of its trading terms.

**Figure 37: Trade deficit, US\$m**



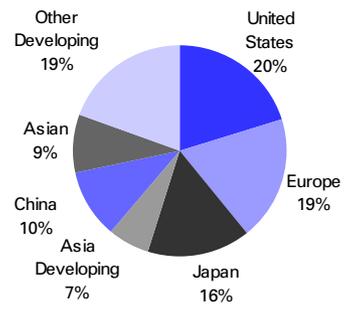
Source: Deutsche Bank

**Figure 38: 2004 Exports by country**



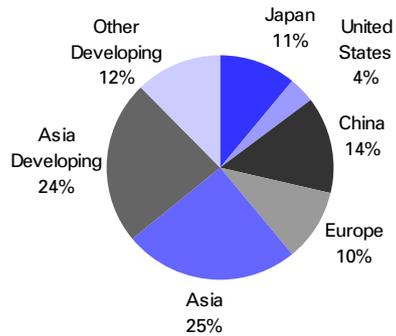
Source: IMF Data

**Figure 39: 2005 Exports by country**



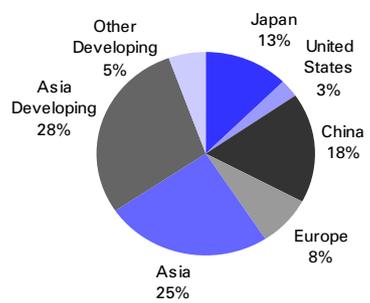
Source: IMF Data

**Figure 40: 2004 Imports by country**



Source: IMF Data

**Figure 41: 2005 Imports by country**



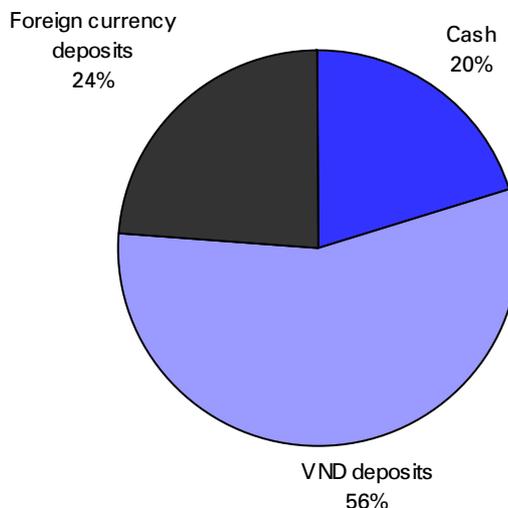
Source: IMF Data

Vietnam’s monthly import cover (i.e. the forex a country has in relation to the average monthly value of its imported goods and services) currently stands at 2.6 months. In most developing countries, particularly in economies which are principally formed by primary commodities (and therefore susceptible to volatile global commodity prices), such a low import cover could potentially leave the currency vulnerable to speculative attacks. The likelihood of a speculative attack on a nation’s currency is exacerbated by the fact that governments of developing countries very often have only limited capability in tapping foreign exchange markets. In the case of Vietnam, however, agriculture only constitutes c.21% of GDP, but when crude oil and other minerals are factored in, commodities constitute a more significant portion of Vietnam’s GDP. In addition, with the SBV looking to further liberalize the exchange rate regime (i.e. widening of the exchange rate trading band currently at + / - 0.25%), an increase in the monthly import cover is an issue that would require consideration.

### Liquidity

As at 2004, total liquidity had increased c.30.4% YoY cf. 24.9% in 2003. This was mainly attributable to a c.39.5% YoY increase in total domestic assets and a total net foreign assets increase of c.11.0% YoY in 2004. In terms of liquidity structure, in 2004 the cash circulation accounted for c.20.4% of total liquidity whilst VND deposits accounted for c.55.8% of total liquidity. Foreign currency deposits contributed c.23.9% to total liquidity in 2004.

**Figure 42: 2004 GoV liquidity position**



Source: Deutsche Bank

### Foreign exchange reserves

Vietnam’s net international reserves have maintained an upward trend reaching US\$8,017m in 2005, with a 29.6% five year CAGR over 2000-2005.

**Figure 43: External foreign exchange reserves, US\$m**

	2000	2001	2002	2003	2004	2005*
Gross official reserves, including gold	3,030	3,387	3,692	5,620	6,314	6,500
Net international reserves, including gold	2,191	2,555	2,956	4,683	5,554	8,017

Source: General Statistics Office, \* Provisional

## External debt

The International Financial Centre of Japan (October 2005) estimates Vietnam's total foreign borrowings at US\$18.2bn in 2005 (c.35.2% of GDP) compared with US\$17.0bn in 2004. In addition, Vietnam's total debt to exports was 51.7% with an external debt service rate of 2.8% in 2005. The GoV expects total external debt to increase in the medium term, but maintains that the capacity to service these debts would remain high. The split between domestic and foreign borrowings is approximately 60% foreign and 40% domestic.

As with past years, medium- and long-term borrowings represented a significant portion of the total external borrowings structure, an increase of US\$983m compared to an increase of US\$1,162m in 2004. Of this, c.US\$967m was mainly commercial loans of businesses, including scheduled loans of Foreign Investment Enterprises (FIEs).

In 2005, the GoV issued a US\$750m sovereign bond through international capital markets for the purpose of developing Vietnam's shipping and port infrastructure (primarily the construction of the CAIMEP Deep Sea Container Port). In addition, this bond would significantly ease foreign currency expenditure pressure on the banking system. The GoV estimates that total foreign currency invested overseas in the form of commercial bank deposits amounted to US\$450m in 2005.

**Figure 44: Vietnam's external debt and liabilities US\$m**

	2000	2001	2002	2003	2004
Total convertible currency debt stock	12,027	12,316	12,239	13,293	15,478
Medium- and long-term debt stock	11,499	12,202	12,077	13,105	15,240
Public and Public guaranteed (convertible debt only)	8,619	9,402	9,684	10,647	12,382
Of which:					
Public enterprises	539	560	578	736	1,138
IMF	312	371	363	318	264
Private sector	2,879	2,800	2,393	2,458	2,857
FDI-related	2,537	2,629	2,356	2,366	2,774
Other	343	171	37	92	83
Short-term debt stock	528	114	162	188	238
Total external debt service	1,804	1,888	1,698	1,838	1,850
Principal	1,308	1,462	1,405	1,548	1,530
Interest	496	426	293	290	320
Public debt	774	784	843	772	767
Principal	471	509	632	559	540
Interest	303	275	211	213	227
Private debt	1,030	1,105	854	1,066	1,082
Principal	837	953	772	989	989
Interest	193	152	82	77	93
Total debt service	6	6	5	5	4

Source: State Bank of Vietnam

## Hedging position of forex

In September 2003, interest rate swap transactions for VND and other foreign currencies were allowed. In November 2004, spot, forward, swap & options instruments were allowed up to 365 days for all foreign currencies. Hedging on the VND is not allowed.

# Key sectors backdrop

# Manufacturing

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## Major sub-sectors and key players

The manufacturing sector grew at a rate of c.13.1% YoY in 2005, contributing c.20.7% to Vietnam's GDP. Key sub-sectors include cement, steel, chemicals and machine tools. Among these, cement grew by c.11.9%, steel by c.21.8%, chemical fertilizers by c.24.7% and machine tools by c.32.8% on a year over year basis in 2005.

**Cement:** Vietnam National Cement Corporation (VNCC), 100% state owned, commanded a c.46% market share as of 5M06. Its subsidiaries include Bim Son Cement Co (51% state owned), But Son Cement Co, the Cement Material Transport Co and the Cement Plaster Enterprise.

**Steel:** Vietnam Steel Corporation (VSC), 100% state owned, commands a c.40% market share, accounting for 17% of Vietnam's total output as of 2005. Other key players are Southern Steel Corporation, Thai Nguyen Iron Steel Company, both owned by VSC, and Zamil Steel of Vietnam (60% owned by Zamil Holdings of Saudi Arabia).

**Chemicals:** The chemical industry accounted for c.8% of Vietnam's total industrial output as of 2005. It is highly fragmented with c.2,070 individual players. The state sector owns approximately 4% of the companies, foreign investors own 10% and the remaining 86% is owned by Vietnamese domiciles. The state sector contributed to c.65% of the total industry output, in value.

**Plastics:** The Vietnam South Plastics Association (VSPA) and the Vietnam Plastics Association (VPA), both 100% state owned, are the two key players in the plastics sub-sector. The VPA belongs to the Ministry of Industry of Vietnam while the VSPA belongs to the Ho Chi Minh City People's Committee; the VPA commanded a c.20% share of the total plastics market in Vietnam as of 2006. The two largest plastic packaging companies in the country are Tan Dai Hung and Tan Tien – other top plastic companies include Saigon Plastic Co., Biti's Co., Binh Minh Plastic Co., Phat Thanh Co., Mo Tien Co., Dat Hoa Co., and LG Vina Joint Venture.

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## Regulation and policy measures

The Ministry of Finance (MoF) announced a list of products that would enjoy special preferential tariffs under the "ASEAN China Free Trade Agreement (ACFTA)". The 0% tax rate would be available for a majority of products imported from ACFTA countries, including products belonging to the fertilizer group, substances for producing dyes or tanning leather, and paint.

The GoV encourages investments in sub-sectors like basic chemicals, pure chemicals and functional chemicals. Investments in such sub-sectors would be granted an exemption of income tax for the first two years and a reduction of tax by 50% in the next three years.

Further, the GoV promotes investments in the plastics industry in specific regions (Duc Hoa Ha I and II Industrial Zones near Ho Chi Minh City) through offering lower land rent. Imported plastic finished products are charged a 10% value added tax (VAT) and 35% import duty. These include plastic waste products, including scrap polymers of ethylene, styrene and vinyl chloride. There is no import duty on raw polymers in primary form such as polyethylene, polystyrene, polypropylene, vinyls and acrylics.

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## Growth drivers

According to VNCC, Vietnam's annual cement consumption is likely to reach c.32m tons by 2006 (increasing 10% YoY). Currently, Vietnam has an annual production capacity of 29m tons of cement and 19m tons of clinker, a key material used for cement production.

Steel production increased c.16.3% YoY during 5M06. According to the Vietnam Steel Association (VSC), steel billet (raw steel) output is likely to increase to 1.9m tons by 2007. According to the VSC, GoV plans to increase steel billet imports to 2.5m tons (c.8.7% YoY) mainly from China, Russia and Malaysia in 2006.

According to the GoV, the chemical industry expects new investments from foreign as well as local investors in developing nitrogenous fertilizer, NPK and DAP. The new production plants could increase Vietnam's total annual production capacity to c.6.5m tons.

The plastic industry's output grew c.30% to 2,100 tons in 2005. The export value of plastics grew by c.37% to US\$380m in 2005. The VPA targets export revenue to increase to US\$500m by 2006.

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## Recent developments

**Cement:** The Bim Son Cement Company and the Ishikawajima-Harima Heavy Industries Co. of Japan inked a joint venture contract to commission a new cement manufacturing facility in the central Thanh Hoa province. This new facility would cost c.VND4tr and have a designed annual production capacity of 2m tons; it is scheduled to be commissioned by the end of 2008.

**Steel:** Steel manufactured at the Luu Xa rolled steel plant in Thai Nguyen is in the second stage of development (investment of c.US\$188m). According to the Vietnam Ministry of Planning and Investments, Taiwan Sun Steel, Konkett and Australia's Minmetal have submitted a proposal to invest US\$1.9bn in steel production in Vietnam. According to the proposal, this would include production of 2.4m tons of steel, 1.7m tons of cast iron and 4m tons of ingot steel.

**Chemicals:** In the chemicals industry, the US\$3.4m potassium salt exploration project is in its first phase. The project is carried out on a 10 square km area to survey and evaluate reserve levels and the quality of mineral salt.

**Plastics:** The VPA is constructing five factories, at a combined cost of US\$939m, to produce PVC and polypropylene foam (PP). The GoV expects these plants (to be completed by 2010) to satisfy c.55% of the industry's demand for raw materials.

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## Key challenges

The key challenge in the steel industry is the price of ingot steel, imported from China. Prices increased to US\$390 per ton (10% YoY) during 5M06 due to higher transportation costs. Ingot steel is the main material for laminating steel, accounting for c.70% of steel production cost. Moreover, the Chinese government has stopped refunding a 13% VAT on steel billet – this could further impact prices of ingot steel as purchases from China account for c.40% of Vietnam's total steel imports.. Heavy debts and large inventories due to the seasonality of the construction industry further challenge Vietnam steel producers. Vietnam has an annual total production capacity of 6m tons of rolled steel. Total demand for steel in Vietnam is likely to reach only 3.8m tons in 2006 (source: Vietnam Steel Association statistics).

# Agriculture and food processing

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## Overview

The agriculture sector contributed to c.16% of total GDP in 2005 and employs c.57% of the total population. The sector recorded 3% YoY growth vs. an overall 8.4% YoY real growth in GDP in 2005. Crops such as rice, pepper, tea, coffee, etc., constitute c.79% of the total agriculture sector, whilst the remainder is made up of livestock and related services. Vietnam is the world's fifth largest producer of rice, its main crop, with production of c.35.8m tons in 2005 (c.6% of total global rice production). Total rice exports amounted to US\$1.4bn in 2005. The Mekong Delta is Vietnam's largest rice granary, comprising over 50% of the national rice output, and contributes over 90% to the total rice export volume. Other major crops are cashew nuts (second largest exporter globally), tea (seventh largest producer globally), coffee, pepper, maize, jute, sugarcane, natural rubber, groundnut and sweet potato. Food processing is one of Vietnam's major industries. Major processed food items include tinned milk, sugar, beer, canned juice and seasoning powder.

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## Regulations and policy measures

The GoV encourages investments in almost all sectors related to agriculture and food processing. However, investments in dairy products, production of vegetable oil and cane sugar are subject to the condition that these projects should also include an investments component in raw material sources. The GoV has agreed to phase-out subsidies for agriculture and lift non-tariff barriers after it joins the WTO.

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## Growth drivers

High priority is given by the GoV to the agriculture and food processing sector, as reflected in the number of projects with FDI increasing by 66 to 765 for agriculture and by 28 to 260 for food processing during 2005. As at 5M06, there were 13 new projects in agriculture and 8 new projects in food processing. Rice production decreased 1% YoY in volume with rice exports increasing 47% YoY in value during 2005. Production increases of other crops were as follows for 2005: 9% YoY for maize, 1% YoY for tea, and 12% YoY for natural rubber. Sugarcane production declined 6% YoY in 2005. Growth in processed food items was as follows for 2005: 10% YoY for beer, 15% YoY for tinned milk, 13% YoY for seasoning powder and 24% YoY for caustic soda. Sugar production declined by 19% YoY in 2005.

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## Recent developments

The Ministry of Agriculture and Rural Development (MARD) has drafted the "Vietnamese Rice Development Strategy for the 21st Century" aimed at increasing rice cultivating areas in the Mekong and Red River Deltas. The GoV further prioritizes improving rural economy infrastructure, enhancing productivity and quality, and improving the competitiveness of the agriculture and forestry sectors. Other initiatives include a system for updating farmers on current crop price, and a tightening institutional management and ensuring growers have access to sufficient materials for agricultural production.

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## Outlook

The reformation of unutilized lands and encouragement of foreign investment in the agriculture sector have contributed to achieving the high-growth and self-sufficiency of agricultural produce. MARD forecasts that given favorable weather conditions, rice output is expected reach 39m tons in 2006, (+10% YoY). However, the Department of Agro-Forestry Products Processing and Salt Industry of Vietnam recognizes that the food processing industry lacks the availability of high-quality raw materials. Further, MARD views uncompetitive pricing and a lack of trademarks as key challenges to Vietnam's joining the WTO. In the backdrop of favorable policy measures and increase in new investments, MARD expects the agriculture sector to achieve 3.8% YoY growth in 2006, and further, 9% growth p.a. through 2010.

# Mining

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## Overview

The mining industry contributed c.5.8% to GDP in 2005 (cf. 6.2% in 2004). According to the Department of Geology and Minerals of Vietnam, the main identified mineral resources are coal, natural gas, and crude petroleum. Coal dominates Vietnam's mining industry. Most of the coal produced in Vietnam is anthracite, mined mainly in the province of Quang Ninh in north eastern Vietnam. According to the Vietnam Coal and Mineral Group, Vietnam had c.220bn tons of anthracite coal, 78m tons of semi-anthracite coal, 38m tons of coking coal, 96m tons of thermal coal and 306m tons of lignite as of 2006. Coal exports increased to 17.8m tons in 2005 (cf. 10.5m tons in 2004).

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## Market and key players

Vietnam is the largest anthracite coal exporter globally, with 13% of the world market as of 2005. Its key coal producer is the Vietnam National Coal and Mineral Industries Group (Vinacomin), which has approximately 30 subsidiaries operating in both strip mines and underground mines. In 2005, Vinacomin produced 31.4m tons of coal, of which 14.7m tons were exported. Key export markets for Vietnam's coal sector include Japan, Thailand, the European Union, Mexico and Brazil.

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## Regulation and policy measures

The GoV passed a mining law in 1996 which provides regulations and guidelines for managing mineral resources and activities in the mining sector. As per the Foreign Investments law framed in 1998, 100% foreign ownership in oil and mineral explorations is not allowed. whilst prospective investors in the processing of precious metals are required to operate with a Vietnamese partner through a business cooperation contract (BCC) or joint venture. Under the Ordinance on Royalties dated 16 April 1998, the royalty tariff for coal is between 1-3% and 3% for other non-metallic materials.

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## Growth drivers

Vietnam's coal output grew by 23.7% YoY for 5M06. Crude oil production and natural gas production declined by 3.7% and 0.2% YoY, respectively, for 5M06. During 5M06, coal export revenues increased by 47.9%. Vinacomin exported c.10.9m tons of coal in 5M06, recording the highest growth in export. Domestic demand for coal is growing sharply and was at 15m tons in 2005 (cf. 8.8m tons in 2002).

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## Future outlook

Vinacomin expects to extract a total of 36.4m tons of coal in 2006, of which 4% would be exported. According to management, Vietnam's coal production is likely to increase to 40-55m tons by 2010. Vinacomin discovered a significant coal seam in the Song Hong (Red River) Delta in northern Vietnam, which it expects should contain up to 100bn tons of reserves. Vietnam's mining industry still faces challenges in terms of the lack of equipment availability, cost pressures (energy cost, in particular) and labour issues. Companies are increasingly focusing on labour-related matters to ensure sustained production, even as contractors are pricing their services more aggressively.

# Fisheries

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## Overview

The fisheries sector contributed c.2.6% to GDP in 2005 and recorded growth of 11.2% YoY during the same period. Seafood is the fourth largest export commodity in terms of value, accounting for c.9% of total exports in 2005. Vietnam's seafood is exported to around 75 countries with the US, Japan, China, Korea and Taiwan being its biggest importers – export revenues increased to US\$2.6bn (10.3% YoY) in 2005. According to the Ministry of Fisheries, the marine fish stock in the whole sea area amounted to 4.2m tons as of 2005, of which the annual allowable catch is 1.7m tons. The southeast sea area offers the greatest capacity to exploit marine products, especially in distant waters, accounting for 49.7% of total capacity as of 2005, followed by the Tonkin Gulf (16.0%), the central sea area (14.3%) and the south western area (11.9%).

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## Market and key players

The key players in Vietnamese fisheries market are the Vietnam National Sea Products Corporation (Seaprodex Vietnam), An Giang Fisheries and Beseafood Corporation. Seaprodex, a 51% state owned enterprise was equitized in 2006.

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## Regulation and policy measures

The GoV has initiated a development program (in aquaculture) to increase off-sea production areas (development of ponds) and increase productivity. In addition, the Ministry of Foreign affairs of Denmark (DANIDA) approved a grant of US\$38m to the second phase of the fisheries sector program (2005-2010). In 2005, Vietnam's seafood exports were taxed at the rate of 30%-40% by the GoV – however, Vietnam's accession to the WTO could result in a reduction of up to 5% in the tax rate, going forward.

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## Growth drivers

Fisheries production increased to c.1.5m tons (7.7% YoY) during 5M06, of which aquaculture production's growth was 0.5m tons (17.6% YoY). The number of Vietnamese seafood companies approved to export to the European Union increased to 171 in 2005 vs. 18 in 1999. An increase of 4.4% YoY in 2005 in marine catches, with a c.19.5% increase in seafood raised in fish farms to a total of 1.4m tons, was reported by the Ministry of Fisheries. Fuel (petrol) costs account for c.75% of total expenditure and with the price increasing c.700% from 2004 (according to the Ministry of Economics and Seafood Plan Institute), costs for offshore fishing activities grew by VND6.4tr in 2005.

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## Future outlook

The Ministry of Fisheries forecasts total seafood production to be 3.4m tons in 2006, with annual seafood export revenue increasing to US\$2.8bn in 2006 and to US\$4.5bn by 2010. The GoV approved an expansion plan to increase the area under aquaculture by 0.1m hectares to 1.1m hectares by 2010. The lack of adequate infrastructure is currently a key challenge in the fisheries industry. According to the Vietnam Association of Seafood Exporters and Producers, c.25% of catch value is lost due to the lack of transportation facilities and adequate chilling capacity. Spoilage and improper handling are the other key reasons for this loss.

# Textile and garments

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## Overview

Vietnam's textile and garments industry is a key economic segment, contributing to c.20% of total manufacturing output. The textile and garment industry is the second highest export earner, after crude oil, accounting for approximately 15% of total exports; textile and garment exports increased to US\$4.8bn in 2005, a 10% increase YoY. The US is its largest export market, comprising c.55% of total textile exports. The sector is fragmented with c.1,100 enterprises and employs a c.1.6m workforce (c.2% of the total population). Key products in this sector are silk, readymade garments and knitted clothes. These sub-sectors grew 4%, 15% and 5% YoY, respectively, in 2005.

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## Regulations and policy measures

The GoV formulated a program in 2000 to provide a US\$4bn subsidy to the textile sector. However, Vietnam's impending accession to the WTO has forced the GoV to comply with the norms of the WTO to remove the subsidy. Currently, c.10% of enterprises is dependent on the GoV's subsidy, including one of the largest manufacturers, the Vietnam National Textile & Garment Corporation (Vinatex).

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## Growth drivers

The Vietnam Textile and Trade Association (VITAS) expects increasing investments and technology upgrades following Vietnam's accession to the WTO, currently underway. Further, import duties on textile raw materials would be reduced to 10%-15% from the current 40%-50%, post-attainment of WTO membership, boosting the cost competitiveness of Vietnam's textile industry given that approximately 80% of material (i.e. cotton and accessories) are imported.

The International Cotton Advisory Committee, USA (ICAC) forecasts world cotton prices to increase by c.20% in the near term, which may impact the competitiveness of Vietnam's textile industry.

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## Recent developments

The US has signed a bilateral trade agreement with Vietnam, offering Vietnamese exporters quota-free access to the US market. Vietnam's textile industry commands a 4.1% share of the US market.

Further, Vietnam has signed a New Market Access Agreement with EU in December 2004, which has lifted all EU quantitative restrictions for Vietnamese textiles effective 1 January 2005. This puts Vietnam at par with other WTO members. Presently, exports to EU form c.15% of Vietnam's total textile exports. However, Vietnam faces major challenge from China in EU market as Vietnam has c.2% market share in EU cf. c.25% of China as of May 2005.

The GoV is planning a trade promotion program in Germany in 2006, which it estimates would cost c.US\$0.9m. The government has identified the necessity of rapid investments to the tune of c.US\$3bn in developing, weaving and dying processes through 2010. It further plans to equitize 10 state-owned textile enterprises belonging to Vinatex by 2007 in order to fund investments in the sector.

# Financial sector

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## Overview

Vietnam's banking sector is dominated by five state-owned banks which, collectively, own 80% of the financial sector's total assets, 31 foreign branches (10% market share), and five joint venture banks and 38 local joint stock banks (together 10% market share). Vietnam's insurance sector is relatively small with insurance premiums accounting for 2% of GDP in 2004. The sector consisted of 18 insurance companies, including four state-owned companies, five private foreign firms and nine joint stock companies as of 2005. The State Bank of Vietnam serves as the banking sector regulator while the Ministry of Finance oversees the non-banking financial sector. The Industrial and Commercial Bank of Vietnam controls 20% of the total assets of the state-owned banks.

The State Bank of Vietnam has adopted a flexible monetary policy, raising the refinancing rate from 5% to 6.5% and the discounting rate from 3% to 4.5%. 500 ATMs were installed in 2005 with the number of ATM subscribers increasing to 2m in 2005 cf. 0.5m in 2004. The number of individual accounts was at c.5m in 2005 vs. 1m in 2004. The banking industry's total mobilized funds increased by 22% and outstanding loans increased by 22.5% in 2005.

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## Regulation and policy measures

The laws governing the State Bank of Vietnam (SBV) and credit institutions were established in 1998. As per the GoV, foreigners cannot invest more than 30% in banks and insurance companies. Moreover, a single foreign investor cannot own over 10% of total shares. The SBV has introduced a number of provisions for the establishment of financial institutions and enhancement of deposit-taking, loans and portfolio investment operations. Currently, neither BASEL I nor BASEL II have been applied to the banking sector in Vietnam and Vietnamese accounting standards have been adopted across the majority of companies.

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## Growth drivers

Total assets of foreign financial institutions in Vietnam amounted to US\$6.2bn in 2005, 25% higher than in 2004. Total loans in Vietnam increased by c.60% in 2005 while total outstanding advances at foreign bank branches rose 30% YoY. Further, in 1H06, deposits grew by 30% cf. December 2005, while growth in advances was only 15% during the similar period. The total deposits of commercial banks in Ho Chi Minh City were VND227tr, an increase of 20% cf. December 2005. While the total advances grew by 9.2% to VND192tr cf. December 2005. SBV maintains that industry NPLs are currently at 3%. However, a caveat must be added that industry NPL data currently remains undisclosed and are likely to be understated.

Key drivers of the high growth in loans include increased lending to the agriculture sector (sector grew by 3% in 2005) and the construction and real estate sector (sector grew by 10% in 2005). Further, the SBV expects high growth in GDP (the Ministry of Finance targets a GDP growth rate of 8.4% for 2006) to lead to high growth in asset lending in Vietnam.

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## Future outlook

The Ministry of Finance projects the banking sector to grow at 9% YoY through 2010 (c.12% YoY growth during the last five years). Vietnam's socioeconomic development plan for 2006-2010 includes plans to equitize all state-owned banks. The GoV intends to equitize the Bank of Foreign Trade of Vietnam (Vietcombank) and the Housing Bank of Mekong Delta (MHB) by end 2006 with the remaining state-owned banks to follow suit.

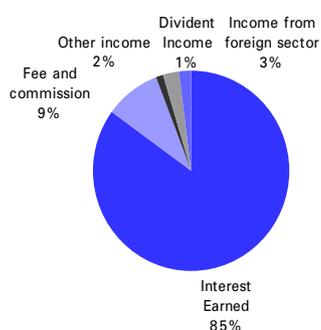
# Key stocks description

# Sacombank (STB VN)

## Business background

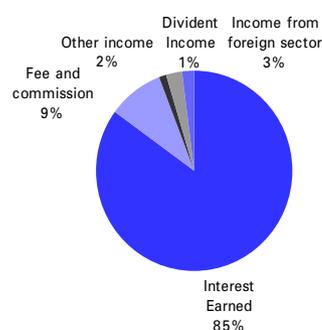
Saigon Thuong Tin Commercial Joint-stock Bank (Sacombank, VND64,500) was established in 1991 by consolidating four credit cooperatives with an initial chartered capital of c.VND3bn. Sacombank finances small and medium enterprises. In FY04, Sacombank became the first commercial joint-stock bank to receive funding investment from International Financial Corporation (IFC). With a nationwide network of 119 transaction locations, Sacombank is the first bank to be listed in Vietnam stock exchange with a current market cap of US\$860m.

**Figure 45: Revenue – Segments (2004)**



Source: Company data

**Figure 46: Revenue – Segments (2005)**



Source: Company data

## Management and key shareholders

The management of Sacombank is the largest shareholder with 38% holding; the second largest are staff and local investors holding 34%, followed by Refrigeration Electrical Engineering holding 8%. The balance 20% is held by foreign investors. The major foreign shareholders are Dragon Financial of United Kingdom with 10% and IFC and ANZ holding the rest. The Board of Directors comprises eight members with Mr. Dang Van Thanh as the chairman.

## Competitive position

Vietnam banking sector is dominated by state-owned banks and they hold 80% of the market share. Foreign banks hold 10% market share and joint-stock banks hold the remaining 10% share in the sector. During 1H06, total deposits in Vietnam grew by 30% YoY, while the growth in advances was 15% YoY.

## Financial summary

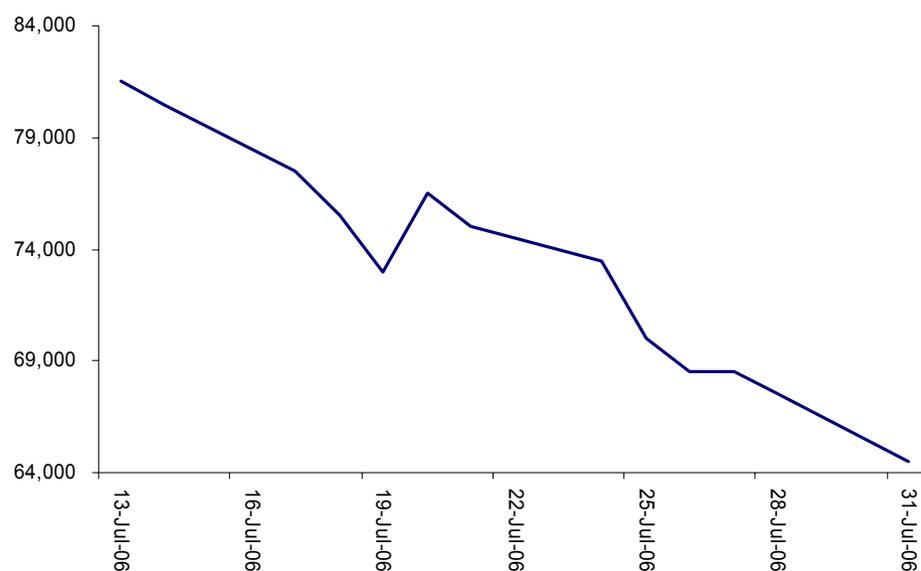
**Figure 47: Financial summary (VNDbn)**

	2003	2004	2005
Net profit	90	151	234
Capital Adequacy Ratio (%)	9.4	5.7	19.1
Total Assets	7,304	10,395	14,456
ROA (%)	21.4	17.3	11.4
ROE (%)	27.5	28.4	18.6
Net interest Income	n.a.	265	434

Source: Company data, Deutsche Bank

## Price Performance

**Figure 48: Price performance, VND, listed on 12 July 2006**



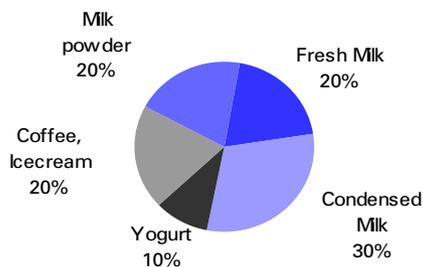
Source: Bloomberg

# Vietnam Dairy Products (VNM VN)

## Business background

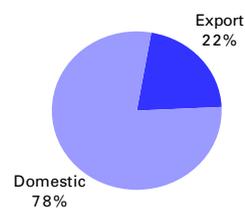
Vietnam Dairy Products Joint Stock Company (Vinamilk, VND67,500) is the largest producer of milk and dairy products in Vietnam, with a distribution network of 1,400 agencies across the country. Domestic sales accounted for 78% of total revenues in 2005 with the remaining 22% generated from exports. Key export markets include the US, Canada, Poland, Germany, France and parts of the Middle East. Key products include fresh milk, condensed milk, yogurt, coffee, ice cream and fresh juices. Additionally, Vinamilk deals in real estate and provides warehousing and transport services. It currently has a market capitalization of US\$763m constituting 25.1% of the total market capital of Vietnam.

**Figure 49: Revenue – Segments (2005)**



Source: Company data

**Figure 50: Revenue – Markets (2005)**



Source: Company data

## Management and key shareholders

The GoV is Vinamilk's largest shareholder with a 50% stake. Fraser & Neave of Singapore, the second largest shareholder, acquired 11% stake by the way of government auctions, with the balance 39% held by other domestic and foreign investors. Fraser & Neave currently do not have any management representation on Vinamilk's board.

## Competitive position

In 2005, Vinamilk held a 90% share in the yogurt market, 40% share in fresh milk, 60% share in condensed milk and 45% share in the milk powder market. The condensed milk segment grew c.10% YoY in 1H06. Fresh milk is the fastest growing segment, recording 25% YoY growth in 1H06. However, the per capita milk consumption in Vietnam is c. 8 litres/year cf. 20 litres/year in South East Asian region and about 40 litres/year in the US and Europe.

Export sales declined by 45% and domestic sales increased by 22% YoY in 1H06. The drop in export sales was primarily due to the expiry of contractual manufacturing agreements for exporting milk products to Iraq, Syria and Middle East countries. However, going forward, Vinamilk plans to penetrate these markets on its own. Vinamilk has formed a joint venture with SAB Miller to produce beer in Vietnam, investing US\$45m in 2006. Beer sales in Vietnam grew c.7% YoY in volume to c.1,035m litres and c.19% in value YoY to c. VND30tr in

2004. This project is likely to be commissioned by end 2006 with an annual capacity of 50m liters of beer. Vinamilk has also invested in an integrated coffee project with an initial capital of US\$20m and will start production by 2008. With these projects in pipeline, Vinamilk plans to become an integrated food and beverage company going forward.

## Financial summary

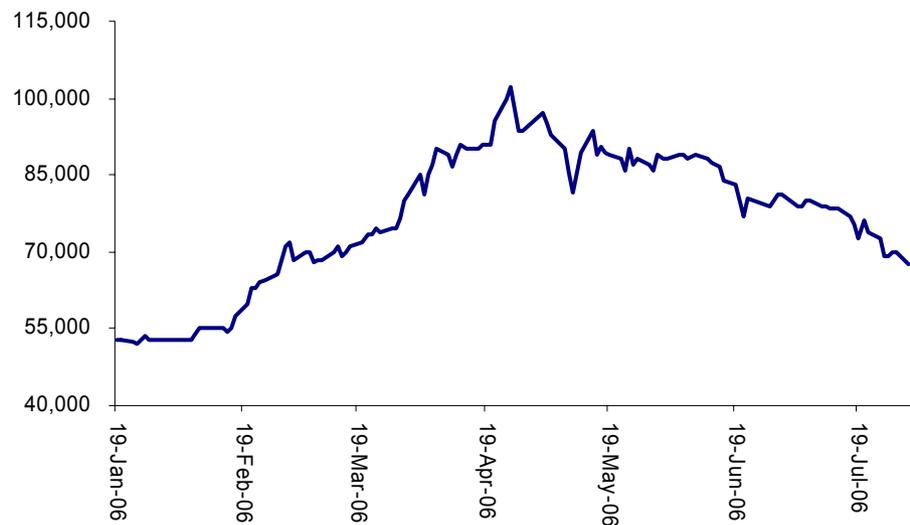
**Figure 51: Financial summary (VNDbn)**

	2003	2004	2005
Net revenue	3,809	4,226	5,638
Operating profit	639	514	524
Net income	512	517	605
ROE (%)	32.8	24.9	27.0
ROA (%)	19.5	18.1	15.5

Source: Company data, Deutsche Bank

## Price Performance

**Figure 52: Price performance, VND, listed on 28 December 2005**



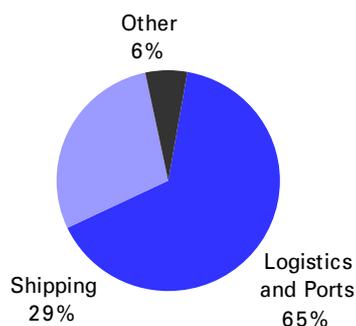
Source: Bloomberg

# General Forwarding & Agency Corp (GMD VN)

## Business background

GMD (VND64,500) is engaged in port operations, shipping, logistics services and real estate, and is the first company to have offered container transportation services (inception in 1993). GMD is one of the first state-owned enterprises to be equitized in 1993 with an initial capital of VND6.2bn. It has three overseas subsidiaries in Singapore, Malaysia and Cambodia, and has a current market cap of US\$151m.

**Figure 53: Revenue – Segments (2005)**



Source: Company data

## Management and key shareholders

GMD's chartered capital is VND200bn. Its shareholding structure comprises state (18%), insiders (30%), external shareholders (41%) and treasury shares (11%). Large institutional shareholders are Dragon Capital (13%) and Prudential (7%). Its Board of Directors comprises 10 members.

## Competitive position

GMD, with a c.10% market share, is the second largest player in port and fleet operations in Vietnam after the Navy. It is the largest player in freight forwarding (17% market share) and container shipping (35% market share). GMD recently ventured into real estate projects in Vietnam with a focus on office space (i.e. Le Loi Plaza with a total investment of US\$50m and the Le Thanh Ton office building with an investment of US\$15m). Additionally, GMD has formed a JV (40:60) with Schenker Logistics of Germany to provide warehouses in Vietnam offering logistics and supply chain solutions to large MNCs like Nike, Adidas and Intel.

## Financial summary

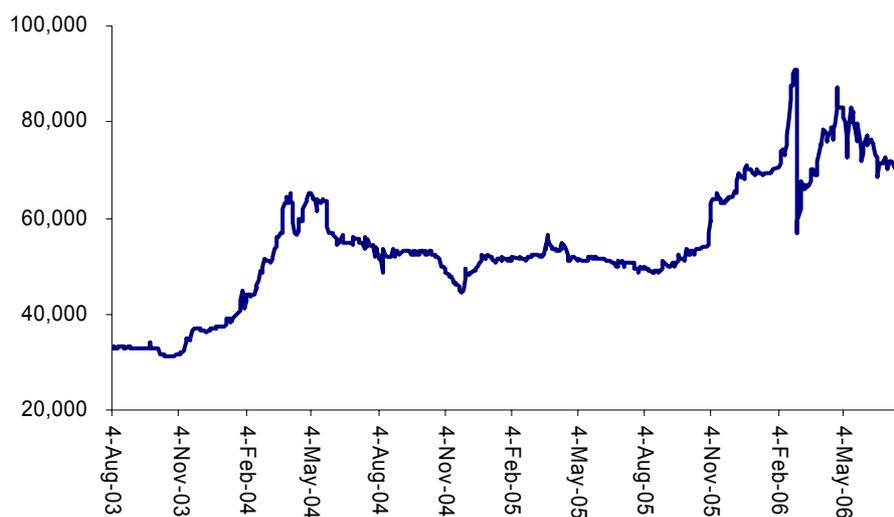
**Figure 54: Financial summary (VNDbn)**

	2003	2004	2005
Net revenue	570	824	1,102
Operating profit	114	151	191
Net income	101	113	147
ROE (%)	25.4	25.0	25.4
ROA (%)	19.7	16.2	14.4
Debt to Equity (%)	3.9	n.a.	34.8

Source: Deutsche Bank

## Price Performance

**Figure 55: Price performance, VND, listed on 18 April 2002**



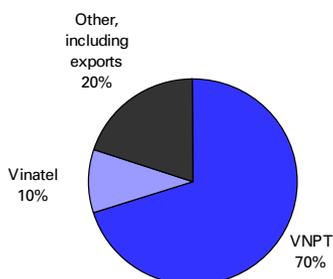
Source: Bloomberg

# Cables and Telecom Materials Joint Stock Company (SAM VN)

## Business background

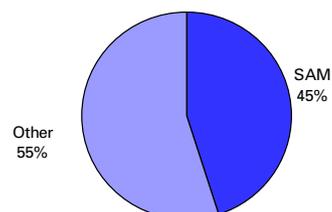
SAM (VND76,000) was incorporated in February 1998 and was listed on the HCSTC in June 2000. SAM's key business is the manufacture of cables, telecommunication and electrical materials. It has obtained the ISO9002 quality certification and has an annual production capacity of 2,300km of cables and 24,000km of copper wire. SAM successfully developed an anti-disturbance cable in 2002, signifying its growing competence in the hi-tech telecommunications equipment market. Management has been successful in negotiating many short-term contracts to export cables and other communication materials to Cambodia, in collaboration with France Telecom. It has current market cap of US\$131m.

Figure 56: Key customers



Source: Company data

Figure 57: Mkt. share



Source: Company data

## Management and key shareholders

The Vietnam Post and Telecommunication Corporation (VNPT) holds a 38% share in SAM. Foreign shareholders collectively hold a 41% stake (Prudential Insurance, with a 4% non strategic holding, is the single largest shareholder). The remaining shares are held by other state corporations and domestic shareholders. The Board of Directors comprises seven members, including the Managing Director and Chairman Mr. Do Van Trac.

## Competitive position

SAM commands a c.45% market share of domestic cable and telecommunication material providers. Its competitors include Vinadeasung and Vinkhanh. 70% of revenues are generated from VNPT with the balance split between Developing Technology Corporation, Saigon Post and Telecommunication, Electricity Vietnam, Vinatel and exports to Cambodia. SAM recently ventured into the manufacture of plastic pipes (production facility capable of producing 2,400km of plastic pipes p.a). Annual expected revenue is VND92bn with the project likely to be commissioned in 2007. SAM has made similar investments to manufacture switch gears, fiber optics and electric cable manufacturing. Currently, management is in negotiations with VNPT to form a joint venture to manufacture and export cables in Cambodia under SAM's own brand names. Vietnam's entry into the WTO in 2006 poses a threat to SAM when the current 15% import tariff on cables is expected to be reduced to 5%, which should lower domestic manufacturers' existing price advantage. For corporate

taxation, SAM falls under the special category of telecommunication equipment manufacturers that enjoy a preferential tax rate of 25%.

## Financial summary

**Figure 58: Financial summary (VNDbn)**

	2003	2004	2005	4M06
Net revenue	331	486	836	307
Operating profit	66	69	102	n.a.
Net income	60	73	103	39
PE ratio (X)	11.3	16.3	14.4	n.a.
ROE (%)	27.5	28.4	19.0	n.a.
Debt to equity (%)	3.4	34.8	38.8	n.a.

*Note: Results for 4M06 are provisional and unaudited*  
*Source: Company data, Saigon Securities Inc, Deutsche Bank*

## Price Performance

**Figure 59: Price performance, VND, listed on 18 July 2000**



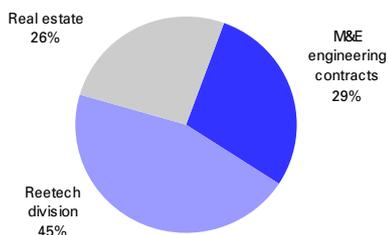
*Source: Bloomberg*

# Refrigeration Electrical Engineering Corporation (REE VN)

## Business background

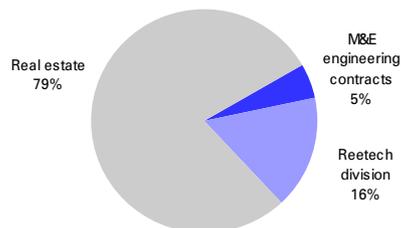
REE (VND67,000) was established in 1977 as a state-owned enterprise and incorporated in 1993. It was the first company to be listed on the HCSTC at the inception of the exchange in 2000, and currently has a market capitalization of US\$136m. REE's core business segment of carrying out mechanical and electrical (M&E) engineering contracts generated 45% of total sales in 2005. The manufacture of "Reetech" brand air conditioners, home appliances and industrial and mechanical products generated 19% of total revenue while the real estate segment accounted for 26% of total revenue in 2005 with the highest contribution of 79% to profits. Additionally, REE invests in equity portfolios, which include joint stock companies and banks. REE has a current market capitalization of c.US\$136m.

Figure 60: Revenue - Segment (2005)



Source: Company data

Figure 61: Profit - Segment (2005)



Source: Company data

## Management and key shareholders

The Vietnam Opportunity Fund (VOF) is REE's largest shareholder with a 9.4% stake, followed by the GoV with 8.2%. The third major shareholder is Prudential Vietnam (7.7%) with the remaining shares held by other domestic and foreign shareholders. Its board comprises five members, including Chairperson Mrs. Nguyen Thi Mai Thanh.

## Competitive position

Vietnam's construction industry grew at c.10.2% YoY in 2005. REE reported c.VND800bn worth of new contracts in the pipeline as at end 2005, which includes a major project at the Tan San Nhat Airport terminal. As per REE, it held c.30% of the M&E engineering industry's market share as of 2005. Management expects its M&E division's annual revenue to reach c.VND500bn during the next few years. Its Reetech division competes with five established brands (Sanyo, LG, National, Toshiba and Daewoo) which, collectively, commanded a total market share of 72% in 2004. Reetech's market share was less than c.9% in 2004. Amidst intense price competition, REE expects the segment's turnover and net profit to grow 20% YoY in 2006. Its real estate segment includes the management of c.40,430m<sup>2</sup> of office building space with an expected occupancy rate of c.99% for 2006. Office rent rates are likely to increase by c.15% YoY during 2006-07. REE believes that the real estate segment would drive the performance of the company going forward, on the back of development of real estate projects on the existing as well as future acquisition of land banks. Additionally, REE had an equity portfolio worth VND90.7bn as of 2H06.

## Financial summary

**Figure 62: Financial summary (VNDbn)**

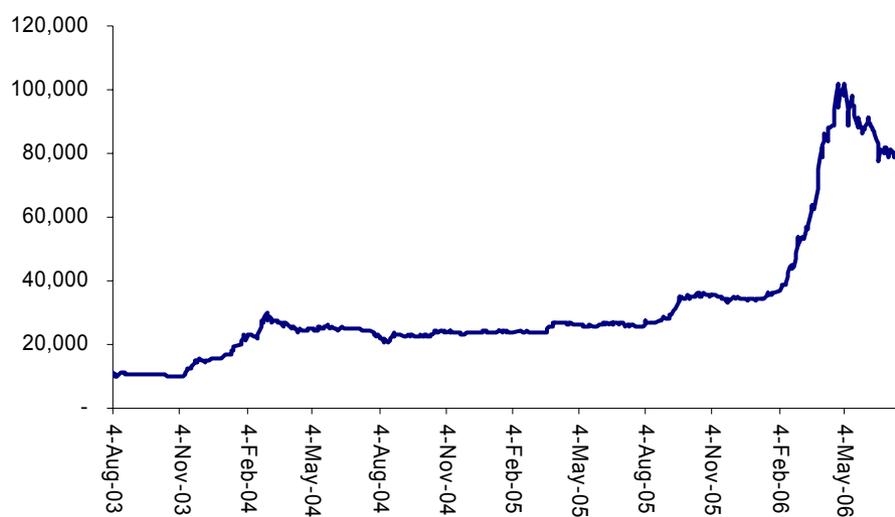
	2003	2004	2005	4M06
Net revenue	372	363	387	274
Operating profit	48	64	87	n.a.
Net income	38	56	68	125
PE ratio (X)	16.1	17.2	20.2	n.a.
ROE (%)	13.6	18.2	13.2	n.a.
Debt to equity (%)	64.1	40.0	26.2	n.a.

*Note: Results for 2005 and 4M06 are provisional and unaudited*

*Source: Company data, Saigon Securities Inc, Deutsche Bank*

## Price Performance

**Figure 63: Price performance, VND, listed on 18 July 2000**



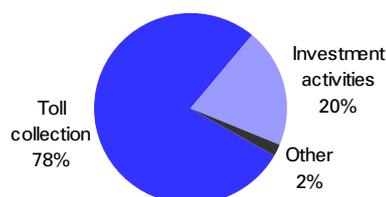
*Source: Bloomberg*

# Ho Chi Minh City Infrastructure Investment Joint Stock (CII VN)

## Business background

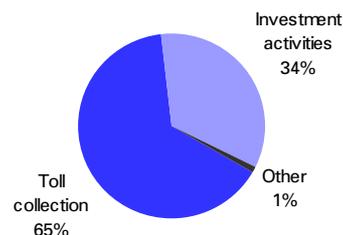
CII (VND 28,400) was established in 2001 as a state-owned company by the Ho Chi Minh City Department of Planning and Investment. CII's key business activities are the management of toll-paid highways and development of commercial buildings and residential apartments for third-party clients. CII was listed on the HCSTC in February 2006 and has a market capitalization of US\$61m as of 1H06.

**Figure 64: Revenue - Segment (2005)**



Source: Company data

**Figure 65: Profit - Segment (2005)**



Source: Company data

## Management and key shareholders

State-owned Ho Chi Minh City Investment Fund for Urban Development is CII's largest shareholder with an 18.3% stake. Ho Chi Minh City Volunteer Youth Production Commercial Trading and Import Export Services is the second largest shareholder with a 5% stake. Total institutional ownership is 72.1% with foreign ownership of 12% as of 2005. Its Board comprises 12 members, including Chairperson Ms. Giao Thi Yen.

## Competitive position

CII has bought the right to manage and collect toll revenues for two major highways in Vietnam – the Hanoi Highway and the Hung Vuong Highway. This was the first of its kind in the history of Vietnam. CII initially contracted the right to collect toll revenues for a period of nine years from 2002. The contract price was VND1,000bn, which was fully paid to the GoV. The total projected revenue for the nine years were VND1,750bn. Actual revenues collected for the three year period spanning 2003-05 amounted to VND510bn. This projected a shortfall in expected revenues; resulted in CII re-negotiating the terms of the contract with the GoV. Successful negotiations ensured the extension of the contract by three more years.

CII has completed the construction of one residential apartment complex spanning 38,900m<sup>2</sup> with three more projects in progress. The completed Luong Dinh Cua project's revenue was VND14.4bn with profit after tax of VND6.7bn. Revenues from the remaining three projects are likely to amount to c.VND184bn, which should be realized over the next four years. The other major investments made by CII are, Water Building – Ownership - Operation Company with a total investment of VND1,500bn (CII's investment is VND200bn, completion due in

2008), and Phu My Bridge Building – Operation – Transfer Company with a total investment of VND2,100bn (CII's investment is VND80bn, completion due in 2009).

Going forward, CII also plans to undertake medium to long term infrastructure projects in Cambodia.

## Financial summary

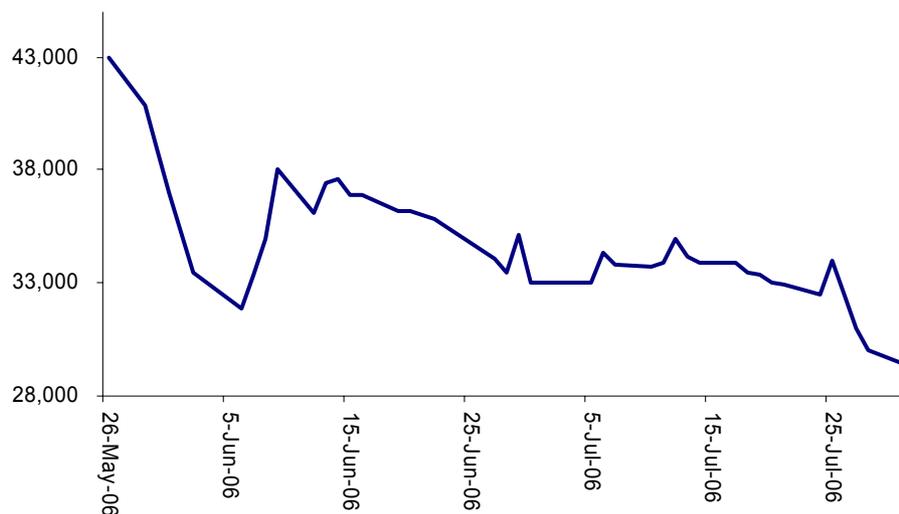
**Figure 66: Financial summary (VNDbn)**

	2003	2004	2005	4M06
Net revenue	172	173	167	85
Operating profit	57	59	58	35
Net income	49	25	28	26
ROE (%)	15.4	6.7	7.8	n.a.
Debt to equity (%)	80.5	130.9	128.7	n.a.

*Note: Results for 2005 and 4M06 are provisional and unaudited  
Source: Company data, CII, Deutsche Bank*

## Price Performance

**Figure 67: Price performance, VND, listed on 28 April 2006**



*Source: Bloomberg*

# Appendix A

List of countries, which have Double taxation Avoidance (DTA) treaty with Vietnam.

**Figure 68: DTA Treaty with Vietnam**

<b>DTA Country</b>	<b>Interest %</b>	<b>Dividend %</b>
Australia	10	10
Belarus	15	10
Belgium	5/7/10/15	10
Canada	5/10/15	10
China	10	10
Czech	10	10
Denmark	5/10/15	10
France	7/10/15	n.a.
Germany	5/10/15	10
Hungary	10	10
India	10	10
Indonesia	15	15
Italy	5/10/15	10
Japan	10	10
Laos	10	10
Luxembourg	5/10/15	10
Malaysia	10	10
Netherlands	5/7/10/15	7/10
Norway	5/10/15	10
Poland	10/15	10
Romania	15	10
Russia	10/15	10
Singapore	5/7/12.5	10
South Korea	10	10
Sweden	5/10/15	10
Switzerland	7/10/15	10
Thailand	15	10/15
Ukraine	10	10
United Kingdom	7/10/15	10
Uzbekistan	15	10

Source: Deutsche Bank

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- Vietnam steel corporation (<http://www.vsc.com.vn/>)
- The Ministry of Finance, Vietnam (<http://www.mof.gov.vn/DefaultE.aspx?tabid=197>)
- The Ministry of Foreign Affairs, Vietnam (<http://www.mofa.gov.vn/en/>)
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- China-ASEAN Business Net ([http://www.china-asean.net/asean\\_biz/vietnam/laws\\_regulations/asean\\_vi\\_law\\_2.html](http://www.china-asean.net/asean_biz/vietnam/laws_regulations/asean_vi_law_2.html))
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- The Vietnam Trade Office in US ([http://www.vietnam-ustrade.org/Eng/about\\_us.htm](http://www.vietnam-ustrade.org/Eng/about_us.htm))
- The Vietnam News (<http://vietnamnews.vnagency.com.vn/>)
- The Food and Agriculture Organization (<http://www.fao.org/>)
- The Vietnam Trade Catalogue (<http://www.info.vn/?news=1&id=1&lang=en>)
- Fibre2Fashion (<http://www.fibre2fashion.com/index.asp>)
- The Vietnam National Textile and Garment Group (<http://www.vinatex.com/main.a.sp?p=aboutus.html>)
- The Thanh Nien News (<http://www.thanhniennews.com>)
- The State Bank of Vietnam
- The Ministry of Planning and Investments, Vietnam (<http://www.mpi.gov.vn/default.aspx?Lang=2>)
- The Central Institute for Economic Management, Vietnam
- The Chinese University of Hong Kong
- The International Monetary Fund

# Appendix 1

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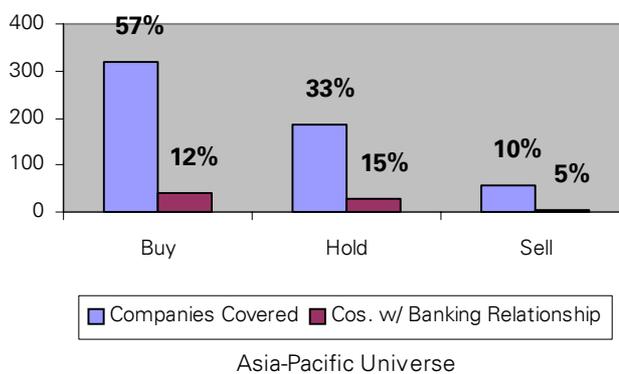
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