

Vietnam  
Emerging Equity  
Fund Limited (VEEF)

A Cayman-domiciled open-ended fund with monthly liquidity. The investment objective of the Company is to seek long-term capital appreciation of its assets by investing in a portfolio of the equity securities of companies with a significant presence in Vietnam.

## Summary

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## Portfolio Manager

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## Bloomberg Ticker

PXPVEEF KY <Equity>

## ISIN

KYG 936101065

## Subscriptions:

Monthly

## Redemptions:

Monthly (30 Days Notice)

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**PXP VIETNAM**  
ASSET MANAGEMENT

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## I• Fund details

<b>Launch Date</b>	3 November 2005
<b>Issue Price</b>	US\$ 5.000
<b>NAV per share</b>	<b>US\$ 3.946</b>
	as at 31 March 2011

<b>Number of shares in issue</b>	5,288,796
<b>Fund size</b>	US\$ 20.87 million
<b>Number of holdings</b>	Listed: 41 Pre-Listed: 3

Performance	YTD	1 Year	2 Years
<b>VEEF*</b>	<b>-17.27%</b>	<b>-31.11%</b>	<b>+38.02%</b>
<b>VNI**</b>	<b>-11.22%</b>	<b>-15.63%</b>	<b>+39.94%</b>
Performance	3 Years	4 years	5 Years
<b>VEEF*</b>	<b>-35.19%</b>	<b>-69.07%</b>	<b>-39.16%</b>
<b>VNI**</b>	<b>-31.21%</b>	<b>-67.00%</b>	<b>-30.21%</b>

\* All figures are NET of fees \*\* Index performance in US\$

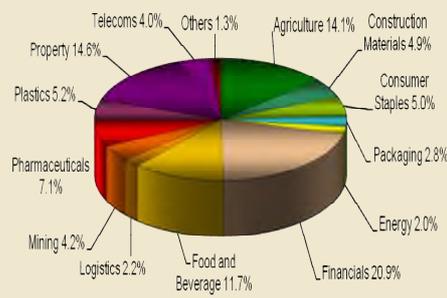
## II• Top 10 holdings

	% of Net assets
<b>Sacombank (STB)</b>	10.8
<b>Vinamilk (VNM)</b>	9.6
<b>Dong Phu Rubber (DPR)</b>	8.2
<b>Binh Minh Plastics (BMP)</b>	6.1
<b>SSG Construction*</b>	6.0
<b>Pinaco (PAC)</b>	5.9
<b>Hoa Phat Group (HPG)</b>	5.4
<b>Asia Commercial Bank (ACB)</b>	5.2
<b>Hau Giang Pharma (DHG)</b>	4.9
<b>PV Fertilizer (DPM)</b>	4.1

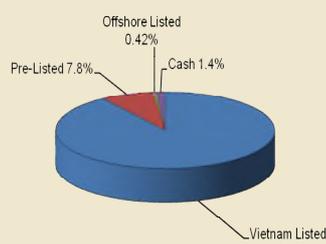
\* Pre-listing holding

## IV• VEEF portfolio

Sectoral Breakdown (as at 31 March 2011)



Segments (as at 31 March 2011)



## III• Investment comment

The Viet Nam Index has spent the past 4 months seemingly building a base at just above the 450 level. Turnover today was the second lowest in the past two years at US\$ 21.5 million, a phenomenon (if one can dignify something as excruciatingly dull as the current market in such terms) which is being described locally as "selling fatigue". It seems to us, however, that with retail investors unwilling to obtain margin financing at rates comfortably in excess of 25% per annum and with local prop books apparently having been scaled back dramatically, the market may have been primed for a structural change in its investor base, from short-term opportunist (out of the market) to long-term fundamentalist (not in it in any meaningful way yet).

Whether the market actually manages to achieve such a quantum leap in development will depend very much on the ability of the local broking community to join up the dots and advise clients on long-term reasons to get invested. There is no question that many of the brokers are very good at joining up dots on a graph and telling us where moving averages and support and resistance levels are, but that is not what we mean. We hear almost every day how there is "no news" and therefore "no interest", completely missing the potentially game changing developments in the market whilst waiting for the government to release this month's CPI number because that is the only thing that seems to matter to local investors and their brokers.

So, by way of a public service, we will now proceed to point out "the dots" which need to be joined to demonstrate how much interest there *really* is in this market, at least from foreign investors on a selective basis (and we are even going to use actual dots in order to simplify the task):

- On 12 April 2011, KKR and Masan Group (**MSN**) announced that the former would buy from the latter 10% of its unlisted food subsidiary, Masan Consumer for US\$ 159 million, paying approximately 15.1 times the company's own 2011 earnings forecast (16.6 times our forecast). It is too tempting to describe the transaction as "Barbarians in the Soup", so let's get that out of the way first. Since the transaction the price of MSN has increased by close to 20% (as compared with an essentially flat index) on less than \$50,000 a day of turnover on average to reflect market approval of the deal. MSN is currently the 3<sup>rd</sup> largest stock by market capitalisation at US\$ 2.4 billion.
- The 4<sup>th</sup> largest stock by market capitalisation is also in the food sector. Vinamilk (**VNM**) currently trades on 8.8 times our forecast 2011 earnings. Today is the soft closing date for the 18 May auction / private placement of 3% of Vinamilk's expanded share capital. The minimum acceptable bid for those shares is VND 120,000 per Share, a 26% premium to the current price putting those shares on a touch over 11 times forecast earnings. The whole issue is expected to go to foreign investors since domestic investors can buy shares in the market at VND 95,000 per Share. Whispers suggest that the issue may be around 5 times subscribed, with successful bids therefore likely to be higher than the minimum.
- Vinamilk is a lot cheaper than Masan Consumer at KKR's purchase price on an earnings basis. It is listed whereas Masan Consumer is not. It is at the foreign ownership limit whereas Masan Consumer is not, and trades at a discount to the market accordingly.

The KKR/Masan Consumer deal is apparently the biggest private equity deal to date in Vietnam and, if nothing else is evidence that foreign investors are interested in taking significant stakes in Vietnamese companies. Both deals demonstrate that foreign investors are willing to pay a premium in order to secure stakes. No interest in the market? The size of the Vinamilk auction is roughly US\$ 61 million at the minimum price. A subscription level 5 times the issue size implies that foreign investors are willing to commit over US\$ 300 million to a single Vietnamese stock on a single day. That is approximately 14 times today's total turnover on the HCMC stock exchange, and almost exactly the same size as the US-listed ETF. Which, coincidentally also has the ticker **VNM**. Not that we mean in any way to imply that investors in the ETF think that they are buying Vinamilk. But the really funny thing is that whatever the final price paid for the Vinamilk shares in the auction, it will have zero direct impact on either the market price of Vinamilk or on the VNI because the transaction is "off market", perpetuating the "no interest" myth.

All of that aside, the upshot is that close to US\$ 250 million of demand for Vinamilk shares (assuming 5 times the issue size in subscriptions) is going to be unfilled in 3 weeks time. The challenge for brokers is to try to persuade the disappointed subscribers that there are other stocks in Vietnam available to foreign investors and worth buying instead. If the brokers aren't able to manage that this is an open-ended fund with monthly liquidity and we'd be happy to help investors with stock selection.

First quarter earnings at the local securities companies have unsurprisingly (given turnover levels year to date) fallen sharply on a year-on-year comparison basis; most of those which focus on proprietary trading have made losses. We wonder whether there might be a lesson to be learnt here: if, as a broker, you consistently tell your clients that the market is going down because no-one is interested and that they should wait before buying, not only will your commissions decline but the value of your prop book will also fall, which isn't exactly the Goldman Sachs business model.