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VIETNAM=> SET TO RALLY 40% => FUNDAMENTALLY & TECHNICALLY ATTRACTIVE

- * This is a rallying cry for clients to look abroad to Vietnam ~ the once high flying frontier market which has spent the past 2yrs in the proverbial sin bin being mercilessly dumped during the 2008 crisis. There are several reasons why investors need to revisit this mkt. There are several ways to gain exposure - with 2 ETF's listed in Asia, both track the FTSE Vietnam Index (XFVT SP & 3087 HK) and several specialised Vietnam Funds
- * Fundamentally the mkt is very cheap. According to Bloomberg the valuation metrics are:
 - 1.9x P/B vs 2.4x MSCI Asia Pac
 - 11x Curr P/E vs 14x MSCI Asia Pac
 - Div Yield 2.53% vs 2.38% MSCI Asia Pac
- * Technically the mkt has formed a Very Bullish pattern. Today's price action is now breaking out providing the necessary Buy trigger. More on that below.
- * I have attached an excellent summary on the Vietnamese economy and stockmarket from the specialised active fund manager PXP Vietnam Asset Mgt. It outlines some salient points about why buying Vietnam at present could be an extremely profitable (contrarian) move.

http://www.pxpam.com/userfiles/data/pxp/448_329.pdf

Technicals & Price Action ~ VNINDEX Index

- * Today's move is significant for several reasons.
 - The mkt has gapped higher on large volume
 - The gap breaks out of downtrend that started in Oct 2009
 - Since 2009 the mkt formed a triple bottom at 419-427 => strong support pattern. This was meaningfully close to 50% Fibonacci retracement from the Mar 2009 low to the Oct 2009 high i.e 433. By holding the 50% retracement level (just) the prospects for further uptrend extension are greatly enhanced
 - The 2nd & 3rd bottoms of the pattern or baseline support ie Aug and recently in Nov gave a Bullish Divergence signal on the 14day RSI & MACD (12,26)
 - The bigger or overall pattern is a classical Descending Triangle which is typically a Continuation pattern of the preceding trend. Today's gap higher breaks the downtrend of the Triangle producing an upside Target Price of 654

~ a 41% return in VND terms

- Furthermore, Volume analysis supports a sustained breakout. The downtrend in volumes since Oct 2009 have been broken with massive volumes of almost 2x 30day Avg having traded in the last 3 days.
- The MACD has just moved into positive territory for the 1st time in 6mths. For momentum traders this is an important and closely watched signal for attempting to catch trends at the beginning of their development.

* With so many technical indicators and patterns aligning its very hard not to get excited about what this particular mkt is poised to deliver. Adding extra comfort are

- Undemanding valuations which are well below the historical mean
- Relative cheapness to EM's & importantly other frontier mkts. Attached is chart comparing the other Asian frontier mkts ~ Sri Lanka / Pakistan / Vietnam (Sri Lanka is up 88% this year and trading on P/E of 22x)

* Whilst the attractive fundamentals & technicals make a compelling case, Vietnam has been traditionally at the mercy of 'Hot Money' and flows. In the age of synchronised global QE, the amount of liquidity sloshing thru the system adds further risk to frontier mkts which are susceptible to wild swings in performance.

* Although I think it unlikely, today's breakout could prove a false break but any retracement is an opportunity to accumulate so long as the baseline support holds. Therefore, the triple bottom at 419-427 is the line in the sand and this is where I would place my stops. If it broke below the support baseline it would mark a meaningful change in sentiment and momentum. Using a price of 464 this represents a 8-10% risk to capital from current levels vs a potential 41% gain or a 1:4 risk/reward. I would recommend using a wider volatility trailing stop to take into account the higher volatility inherent in this market i.e Daily 4x ATR or switching to longer time frame such as a Weekly 3x ATR which will ignore the ST mkt swings.

* With the momentum needle swinging into the positive territory and with the uptrend is in its embryonic stage, momentum funds (CTA's/ trend following managers) are just starting to recognise the potential, evidenced by the uptick in volume traded in recent days. Therefore, I would be allocating funds in the ST to get ahead of the wave of looming capital inflows.

* In Asia, the XFVT SP & 3087 HK, track the FTSE Vietnam index (FVTTE Index). Both trade at a small 0.5% premium to their NAV. The past week on avg \$900k have traded daily - whilst that may keep some investors away at present they are the most active ETF's outside of the US.

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