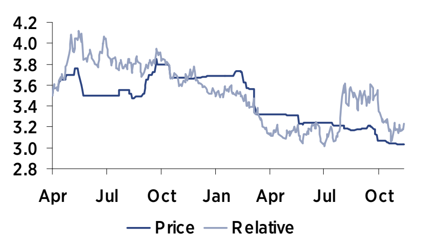
PXP Vietnam Fund (FTSE:VNF)3,5,F

ADD

Share price	**$3.03**
Target price	$3.32
9% Upside	
Market cap ($m)	36.4
Net cash ($m)	0.0
Enterprise value^ ($m)	36.3
No. of shares (m)	12.0
Free float (%)	100.0
Average daily vol ('000, -3m)	1
Dividend yield (%)	0.0
PER at Target price (Y1)	n/a
Sector PER	10.0
Price/book	0.7
12 month high/low ($)	3.73/3.03

(%)	1m	3m	12m
Absolute	-1.0	-4.7	-17.4
FTA relative	-1.1	-5.2	-12.3

Price & price relative (-2yr)



Source: Datastream

Share price as at close: 17 November 11

Next news

FY11 results Nov 2011

Business

Cayman domiciled closed end fund which invests in Vietnamese listed companies

www.pxpam.com

Sue Munden
Research Analyst
+44 (0) 20 7107 8069
susanmunden@seymourpierce.com

Emerging potential

The Vietnam stock market has suffered from the confluence of negative factors which has reduced the index to just 32% of its peak value in 2007. We believe that the confirmed falling trend in inflation, if supported by currency stability, could reverse the vicious circle into a virtuous one leading to a much improved economic performance next year. As an actively and professionally managed, research driven equity investment vehicle, PXP Vietnam Fund (PXPVF) offers investors an attractive access to the market. The fund performance track record is sound with out performance against the index over most time periods. There remain significant emerging market risks to investment in Vietnam but we are reassured by recent economic developments. We initiate coverage with an ADD recommendation.

Economic prospects improving

From a short term perspective, domestic investors have the flexibility to place cash in equities, gold, real estate or US$ or Dong bank deposits. Gold has been favoured of late – a devaluing currency, the bubble bursting in residential real estate and significantly negative real interest rates have made gold an obvious choice. However, the balance is changing: inflation is falling sharply from a peak of 23.0% pa in August 2011 to a current 21.6% (Oct 2011). A continuing decline and a more stable currency should entice domestic investors back into their home markets.

Rigorous investment process

The investment process applied by PXP is research driven and bottom up. The 8 strong research team typically make 200 company visits a year and their analysis is rigorous and well informed. The performance of the fund has been notably better than the index during market upswings whilst being more in line when it falls.

Valuation

The fund has typically traded in a range which represents a 5-15% discount to NAV. This is a lower discount than peers, possibly due to a combination of the transparency in valuation and low liquidity in the fund. We have assumed for the purposes of our forecasts that the NAV will rise in line with estimated earnings growth in the market, although if sentiment improves, a modest re-rating from its current lows of 9x historic PER (the high was 35x) could push the market considerably higher. Based on our average forecast NAV for FY11/12E and applying a 15% discount, our target price is $3.32 leading us to our Add recommendation.

3,5 Please see regulatory disclosure notes at the end of this document F Forecast change

A draft of this research has been shown to the company following which minor factual amendments have been made.

Year end September	Revenue ($m)	EBIT* ($m)	PBT* ($m)	NAV/s ($)	Adj. EPS* (c)	Disc/NAV (%)	EV/EBIT* (x)	Div yield (%)
2009A	26.5	25.4	25.4	6.03	2.1	(49.7)	1.4	0.0
2010A	(13.1)	(15.4)	(15.4)	4.28	(1.3)	(29.2)	n/a	0.0
2011E	(7.5)	(8.8)	(8.8)	3.54	(0.7)	(14.5)	n/a	0.0
2012E	10.1	8.6	8.6	4.26	0.7	(28.8)	4.2	0.0
2013E	8.1	6.5	6.5	4.80	0.5	(36.8)	5.6	0.0

* excludes exceptional items and amortisation of acquired intangibles.

^ EV calculation adjusted for core cash, investments etc.

Source: Seymour Pierce Ltd

Investment Summary

Fund, launched in 2003, is managed by PXP Asset Management

PXP Vietnam Fund is a Cayman Island domiciled investment fund which invests in Vietnamese companies. The fund, which was established in 2003, was originally listed in Dublin but transferred to London in 2010 where it is now listed on the main market of the LSE. The fund is managed by PXP Asset Management which is a research driven Vietnam based asset manager with $100m under management and founded by the CEO Kevin Snowball. This fund is their flagship fund and not only was it PXP's inaugural product but also it was the first pure equity Vietnam focused fund. The management charges a 2% fee based on month end NAV but no performance fee.

Stock market index is now just 32% of 2007 high

Investors into the fund gain exposure to the rapidly developing Vietnamese stock market which celebrated its tenth year in July 2010. Stocks trade on two exchanges in Hanoi and Ho Chi Minh City (HCMC). The prospects for this market, which has corrected significantly from its high of 1170 in 2007, are, we believe, improving in the short term and we are optimistic about the longer term potential.

Lower inflation and a stable currency should encourage investors back into equities

From a short term perspective, domestic investors have the flexibility to place cash in equities, gold, real estate or US$ or Dong bank deposits. Gold has been favoured of late – a devaluing currency, the bubble bursting in residential real estate and significantly negative real interest rates have made gold an obvious choice. However, the balance is changing: inflation is falling sharply from a peak of 23.0% pa in August 2011 to a current 21.6% (Oct 2011). The annualised run rate based on October 2011's 0.36% MoM rise of just 4.3% is an unrealistic target but we believe that CPI will fall to c12% by 2H12 following the anniversary of the 7% devaluation of the Dong last February. This will remove the intense pressure on credit and help stabilise the currency. With gold having rallied strongly in recent months, investors should be inclined to revisit equities – many of which are valued attractively. The market is trading on an FY11E yield of 7.0%, 7.2% ex-financials and estimated PE of 9.1x or 8.2x, ex-financials.

Medium to long term prospects underpinned by positive demographics

The medium to long term prospects rest on the positive demographics: the average age of the population is just 28 years- 25.2% of the population is under 15 years - and with a total population of 90.5m, Vietnam ranks as the 14th most populous country in the world. Vietnam has transformed from its communist, centrally planned roots to a market driven, export oriented economy which joined the World trade Organisation in 2007. Managing the growth potential remains a big 'emerging market' risk: whilst we consider the intentions of the Government are clearly to continue developing the economy along market principles, the new team at the Treasury has yet to prove its credentials.

Emerging market caveat

Consequently, investment in the fund is recommended for those with some tolerance to developing market risks. We see this vehicle as providing an actively managed exposure to Vietnam equities and one which has a track record of out performance versus the market.

The valuation, currently a 12% discount to Oct 31 2011 NAV, is we believe sustainable and should narrow as the underlying market performance improves. The liquid nature of the PXPVF equities assets results in a lesser discount to NAV than the discount attributed to other Vietnam investment vehicles where the assets are less transparent and valuations more subjective.

Initiate with an ADD recommendation and target price of $3.32.

We consider PXPVF to be an attractive means to access the Vietnam market since it is a professionally managed 100% equity vehicle. Visibility of returns is good given the monthly portfolio disclosure and the management fee of 2% is not aggressive. The outlook for Vietnam from a macro perspective is, we believe, improving and the relative attraction of domestic equities compared with other asset classes is also becoming favourable. We therefore initiate coverage with an ADD recommendation, reflecting the encouraging outlook and the risks involved with emerging market investments.

Vietnam Economy

'Doi moi' policy moved to market based economic principals in 1986

Since the implementation of the 'doi moi' policy in 1986, the Vietnamese Government has sought to liberalise the economy and encourage export driven industries. The economy has had to recover from several devastating wars which have led to marked distortions to the age profile of the population and the removal of Soviet financial subsidy. Consequently, the average age of the population is just 28 years- 25.2% of the population is under 15 years - and with a total population of 90.5m, Vietnam ranks as the 14th most populous country in the world.

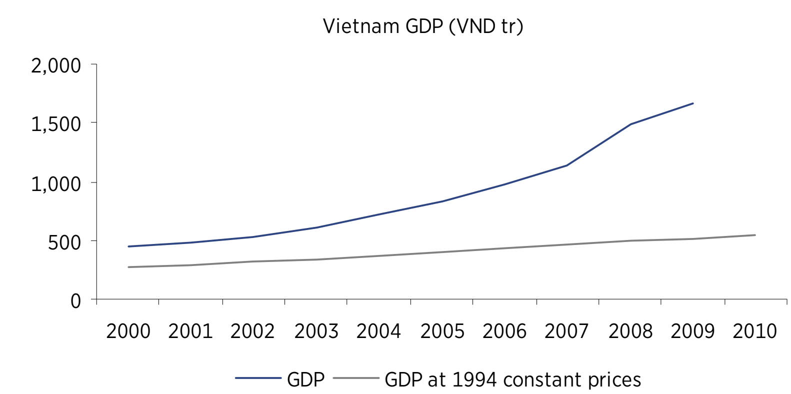
Young, literate population gives a strong demographic

The younger generation is now coming of age leading to a vibrant and educated workforce to generate growth and opportunity. Unemployment is low at 2.6% (June 2011), literacy is 95% and there have been significant improvements in the level of poverty: in 2010, 10.6% remained below the poverty line (*CIA data*). With GDP per capita having grown from c$415 to $1,191 in the decade to 2010, the domestic transformation has been considerable.

Average GDP growth 7% since 2000

The Vietnam economy has achieved robust growth averaging over 7% pa since 2000. Growth has been driven by increased industrial production and services so that the output from agriculture has fallen from 25% to c20% in 2010. This trend has persisted into the current year with GDP growth from industrial production up 6.6%, services up 6.2% whilst agricultural production rose 2.4% for the nine months to September 2011.

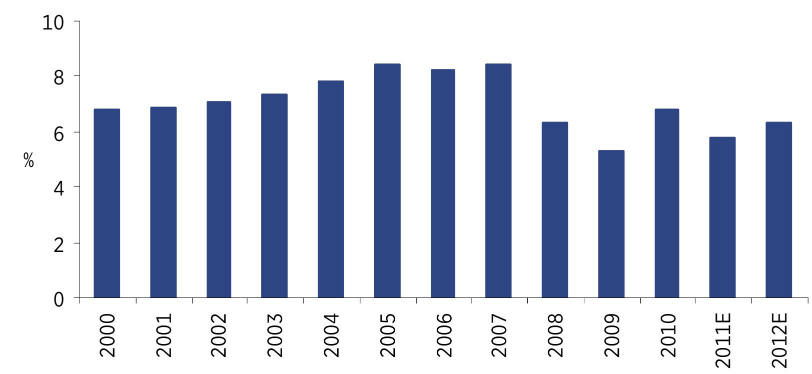
Vietnam GDP 2000-2010



Source: Government Statistics Office,Vietnam

GDP growth for FY11 and FY12 has been forecast at close to 6% and 6.5% respectively by the Government with the IMF forecasting 5.8% for the current year and 6.3% for FY12. The Government is targeting GDP in the range of 6.5%-7% from 2011-2015, which seems plausible, with a budget deficit under 5% of GDP, far healthier than the troublesome numbers in developed economies. For the nine months to Sep 2011 the deficit amounted to just 2.4% of GDP making the target well within reach.

Vietnam GDP Growth

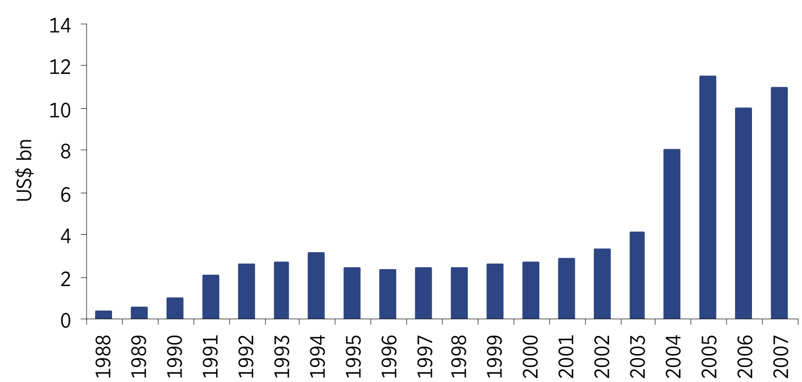


Source: Government Statistics Office

Significant FDI flows to fund outsourced manufacturing from China, Japan and South Korea

Output benefits from significant foreign direct investment (FDI) which for the 9 months to September 2011 alone reached $9.9bn. The commitments spiked in 2008 prior to the financial crisis at $71.7bn much of which has now been postponed, but nevertheless ongoing investment disbursements of over $10bn a year is a significant contribution in the context of GDP of US$103.6bn in 2010. The attractions include the 95% literacy rate, cheap labour and a diligent workforce. Vietnam was labelled 'China Plus One' to recognise the popularity of Vietnam as an outsourcing base for Chinese manufacturers. The population of indigenous Chinese in Southern Vietnam is an added advantage for Chinese manufacturers. Nevertheless, Vietnam has attracted significant outsourced manufacturing from Japan and South Korea as well as from China.

Foreign Direct Investment



Source: Government Statistics Office, Vietnam

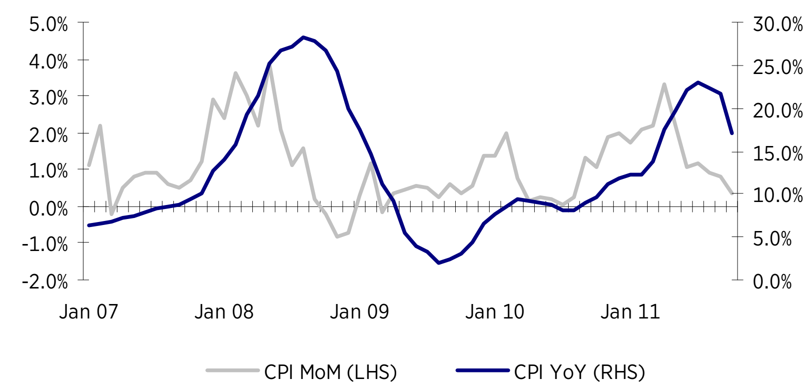
Large trade deficit persists..

The country's main exports are clothes, shoes, marine products, oil, electronics, rice and machinery. The US is the prominent trade partner with 20% market share followed by the Asian countries for which Vietnam represents an outsourcing location such as Japan (10.7%), China (9.8%), and South Korea (4.3%). Whilst exports have been growing rapidly (CAGR since 2000 of 40.7%), imports have outpaced the growth, rising 46% over the last decade and beginning at a higher base. Consequently the trade deficit persists.

...causing Dong devaluation

The devaluation of the currency is heavily motivated by the desire to address the trade balance and the latest data tend to support that the February 2011 devaluation is achieving this: the rise in exports of 34.6% YTD has outpaced the rise in imports of 27.2%. Thus, the trade gap for the 10 months to October 2011 is US$8.4bn and the October deficit of $800m is a welcome improvement on September's £1.5bn. The government predicts a deficit of c$10bn for the full year down from $12.4bn in 2010. However, in the absence of a further devaluation, the deficit is anticipated to rise again to c$13bn in 2012. The deficit/GDP ratio will nevertheless have declined from 12% in 2010 to c9% in 2011 and should be maintained at that level in 2012.

Vietnam CPI: Month on Month and Year on Year



Source: Office of National Statistics, Vietnam

CPI reached 23% in August 2011 but is set to fall...

The consequences of the devaluation and growth are clearly high levels of inflation. The CPI, in recent years, peaked at 28.3% in August 2008 and was in danger of revisiting that level mid 2011. The CPI appears to have peaked at 23.02% in August 2011 and has fallen back sharply since to the current annual rate of 21.6%. The monthly rate for October 2011 of 0.36% is encouragingly modest. The main products showing rising prices were food and beverages, clothing, appliances and health products. Conversely, commodities, housing, construction and transportation prices fell. CPI has been adversely affected by a number of factors:

1. The 7% devaluation of the currency causing significant imported inflation
2. Food price inflation in China – food represents 40% of the CPI basket
3. Food price inflation has been exacerbated by sharp increases in the price for rice. This can be attributed to the Thai election promises to the Thai farmers (Thailand is the largest exporter of rice) although we expect that the floods will add to the upward pressure in the short term.
4. The removal of Government subsidies for oil and power

...to 12% by 2H12

As the one off items drop out of the annual comparison, core inflation will fall sharply and it is anticipated that inflation should reach low teens (c12%) by 2H12 with the Government targeting levels of 7% further out. Whether this can be achieved will depend on the management of the currency, which, as mentioned above, has strong connections with the level of Foreign Exchange reserves and consequently the trade balance. The reserves are aided by FDI flows (c$10bn pa) as well as overseas remittances from expatriate Vietnamese of $7-8bn pa and Official Development Assistance of c$3bn pa. These inputs will more than offset the expected trade deficit of $11bn in 2011 so that FX reserves which fell to about 6-8 weeks of imports, had risen to $15.2bn by end June 2011 and should rise further in the second half of the year.

To reduce the CPI, a stable Dong is required

Whilst higher foreign exchange reserves should strengthen the Dong, the equation is not that simple. Confidence in the stability of the Dong has clearly been shaken by the extent and regularity of currency devaluations. The Government has an official rate for the Dong/US$ of 20,944 but there is a thriving black market trade to the extent that the prevailing black market rates are published daily in the press. Vietnamese can choose to hold deposits in US$ but often opt for gold: there is about $40-50bn in gold held outside the banking system in Vietnam. Consequently there is a simple mechanism for capital flight which is pursued relentlessly when the black market rate diverges meaningfully from the official rate. The new Central Bank Governor has pledged no further devaluation this year and it would be very beneficial for his credibility if he keeps his pledge. A further 1% adjustment, however, should not be ruled out.

Interest rates are high: lending rates are 22-23% but the deposit rate is capped at 14%

Interest rates have, as one would expect, risen sharply so that the current lending rate is 22-23%. The Government, with a view to shoring up the confidence in the banking sector, has imposed rigorous controls in an austerity package so that deposit rates are capped at 14%, loan growth is capped at 20% and the capital adequacy requirement is 9% increasing to 10%. In particular, loans to 'non-productive' sectors which include real estate had to fall to 22% of banks' loan books by June 30 2011 and further to 16% by the year end. Reducing this exposure is clearly difficult but 'massaged' with write-offs and by imposing higher interest rates on those borrowers, PXP estimate the current level is about 17.5% so the 16% target should be reached.

As negative interest rates fall investment should rise

The deposit interest rate cap results in significantly negative real interest rates which hopefully will encourage corporates to invest and individuals to divert their savings into other asset classes. The lure of gold has been irresistible over the recent past but should views on the currency improve, there is a significant pool of liquidity in gold and US$ which could switch into equities or real estate.

Vietnam: Key Economic Indicators

Key Indicators	2007	2008	2009	2010	2011E	2012E
GDP Growth (%)	8.5	6.3	5.3	6.8	5.8	6.3
CPI (%)	12.6	19.9	6.5	11.8	18.5	12.0
Trade deficit (US$bn)	12.5	17.8	12.2	12.4	10.0	13.0
FDI commitments (US$bn)	21.3	66.5	21.5	18.6	15.0	18.0
FDI disbursements (US$bn)	8.0	11.5	10.0	11.0	12.0	12.5
Credit growth (%)	54.0	21.0	37.7	27.6	17.0	20.0
Deposit rate (%)	7.0-8.0	8.0-8.5	9.5-10.5	10.0-11.0	14.0	12.0
Lending rate (%)	10.0-12.0	10-12.5	10.5-12	13-13.5	18-23	14-16
US$/VND (official rate)	16,016	17,486	18,600	19,500	21,500	22,500

Source: Government Statistics Office, Vietnam

The economic outlook is improving

In conclusion, the economic health is somewhat of a circular debate: domestic GDP growth requires lower inflation so that interest rates are low enough to finance expansion. However, the ability to curb inflation rests on the trade account and the absence of capital flight. We are encouraged by the recent low inflation data: a reduction of some 11 percentage points in CPI from 23% to c12% in the coming months should have a profoundly positive impact on the economy.

longer term potential is attractive

We believe that there is significant medium and longer term potential in Vietnam as well as a meaningful short term recovery. The Government intentions are positive although some of the policies imposed have been somewhat heavy handed resulting in major swings in economic variables. This remains a risk but the recent austerity measures are having the desired effect and given a more tempered approach, the outlook for unlocking Vietnam's immense potential, we believe, is encouraging.

Vietnam's Stock Market

Stock exchanges in Hanoi and HCMC established in 2000

The Vietnamese stock market celebrated its 10th year in July 2010. Stocks now trade on two exchanges in Hanoi (opened 2005) and Ho Chi Minh City (HCMC). When PXPVF was launched the index was 166 and there were 22 stocks listed on the just the HCMC exchange, a number which has grown to 680 currently with a market cap of c$30bn. Much of the increase has been the graduation of stocks from trading over the counter in a 'coffee house' culture to the main exchange. Consequently, whilst the system has only relatively recently become regulated, the culture of investing in equities is well entrenched and there is very active retail participation in the market. Daily turnover has averaged $50-60m in the year to date but has fallen off recently to nearer $10-20m per day.

The stock market is open for trading between 08:30-11:00 Monday-Friday but an afternoon session is due to be introduced in February 2012. In other markets when trading hours have been extended, volumes have increased considerably so it is expected that this extension will add to the liquidity of the exchanges.

The stock market staged a significant rally in its early years reaching a peak of c1200 on the VNI in 2007. It has corrected further since the devaluation this year reaching a low point of 371 in May 2011 from where it rallied to a recent high of 475 before revisiting previous lows.

VNI Performance: One year

Source: Bloomberg

Subject to foreign ownership limits of 49%; 30% for banks

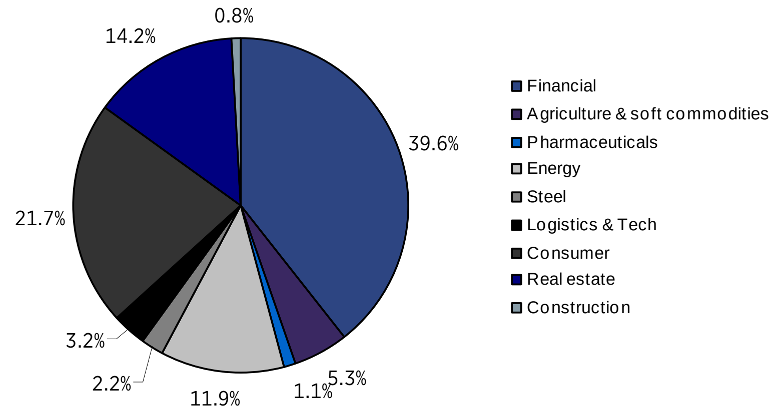
There are foreign ownership limits enforced on listing companies and banks: all listed companies are subject to a maximum 49% foreign ownership and banks to 30%. When the limit is reached, foreigners can only purchase that stock if another sells and this is determined by negotiation. Of the larger enterprises, Vinamilk (Mkt cap $2.3bn) and Asia Commercial Bank (Mkt cap $1.0bn) are the most notable stocks where this limit has been reached.

ETF's impact short term market performance using liquid large caps

The launch of the first ETF in Vietnam in 2009, the Deutsche tracker, has also had a profound effect on the movement of stocks held in these instruments (there are now two ETFs, the second being the market vectors Vietnam ETF). In particular market heavyweights such as Masan Group (Market cap c$3.3bn), a conglomerate with businesses in consumer products, financial services and resources, Bao Viet Holdings (Mkt Cap: £2.3bn) the insurance group, and Vincom, the real estate group (Mkt Cap: $2.3bn) are now trading on multiples significantly higher than most of the market as their foreign limits have not been reached and they are significant weights in the index. Consequently, these stocks tend to lead the market at times of market volatility.

The financial sector dominates the stock market with 39.6% of the total market value but consumer related companies (21.7%) and property (14.2%) are also significant sectors.

Vietnam Stock Market: Sectors by Market capitalisation (%)



Source: Company

Market FY10 PE is 9.1x and yield 8.2%

The market as a whole is trading on a historic PE of 9.1x and a yield of 8.2%. However, given the dominant weighting by the financial sector and also the impact of the liquid large caps we have also provided below data on the market without these elements. The forecasts are based on PXP Vietnam Asset Management estimates and include the 90% of the market which they cover as at October 31 2011:

Vietnam: Stock Market Valuation

31/10/11	Market Cap US$m	PE(x) 2010A	2011E	2012E	Yield (%) 2010A	2011E	2012E
Market	28,115	10.3	9.1	7.6	7.8	7.0	7.3
Market ex- financials	16,928	9.5	8.2	6.9	8.0	7.2	7.5
Market ex-MSN/BVH/VIC	24,037	9.7	8.6	7.1	7.9	7.1	7.4

Source: Company

We discuss the investment process conducted by PXP in a separate section later in this report. However, we have interviewed the analysts and present their views on the main sectors with our own observations below.

Financial

Financial sector (underweight) affected by austerity measures

This sector represents close to 40% of the market. The shares were hit by concerns over the economy and in particular non-performing loans in the real estate sector, during 2010. However, the Government austerity measures which have raised the capital adequacy from 9% to 10% along with the restriction on credit growth and enforcement of a lending ceiling of 16% to 'non-productive' elements of the economy, including property, have imposed some discipline. This is improving the financial structure of banks as well as raising confidence in the sector.

Loans/deposit ratios are in the region of a healthy 80% including long term interbank funding. Customer deposits only raise the ratio to a manageable 110%. The deposit rate cap is providing banks with good margins and appears to be accepted by depositors – a cap was introduced a few years ago unsuccessfully but this time it appears to be working. Non-performing loans (NPL) as reported are averaging a low 0.7% although the analyst believes that this figure would be 2-3% on an IFRS basis – a plausible figure in our view but clearly not distressed. The State owned banks have higher levels of NPL since they support State Owned Enterprises (SOEs) which are less efficiently or profitably run than the private sector.

It is widely expected that there will be significant consolidation in the industry, particularly among the small banks, and some may fail. There are 18 banks with total assets below VND3,000bn (US$130m) which gives some context to the relatively modest scale of the problem. Moreover, the impact on the economy is not expected to be contagious due to the absence of derivatives and synthetic financial products. Accordingly, any consolidation which will result in fewer but stronger and larger banks is likely to be beneficial.

Banks trade on P/Tangible Book of about 1x. There is little securitisation so that most of the capital is Tier 1 and consequently the 9-10% capital adequacy provides good cover. The ROEs are 25-30%.

Insurance stocks and brokers comprise about 30% of the financial sector, with Boa Viet Holdings being the prominent insurer. In that sector, market penetration is low providing a significant opportunity but fraudulent claims pose a problem and falling deposit rates will lower income in the short term.

Consumer

Good demographics; excellent prospects (Overweight)

This sector is dominated by Masan Group (MSN) and Vinamilk (VNM): MSN trades on high PE multiple of 24x 2011E EPS and 20x 2012E EPS compared with the market of 9x 2011E EPS and 7x 2012E EPS. This is attributed to its liquidity and qualification for the ETFs, since the foreign ownership limit has not been reached. VNM is on a more realistic PE of 11.1x 2011E EPS and 9.3x 2012E EPS. VNM has reached its foreign ownership limit and is trading at an all time high which compares with the market very considerably below its peak. The liquidity in VNM will shortly benefit from a 1 for 2 bonus issue (expected ex-date: 29 Nov 2011). Whereas VNM will continue its strong organic growth (expected >20% sales and profit growth in the next 3 years) underpinned by capacity expansion and demand growth (especially untapped rural demand which represents 90% of total population), the future story of MSN is more complicated based on market share expansion and further M&A. MSN's recent acquisition of 50.1% of VCF (an instant coffee producer with market share of ~40%) has signalled continued expansion of its FMCG business.

The prospects for this sector are clearly benefiting from the young population, growing wealth, rising consumer sophistication and expanded distribution channels. In the more challenging environment, competence of management will continue to be one of the key drivers in growth generation and profitability improvement.

Real Estate

Sector to watch

This sector has underperformed for the last couple of years as speculative funds have moved away from equities, property and the domestic currency into US$ assets, particularly gold. Real estate in Vietnam in urban areas requires redevelopment but this process is severely hampered because the land regulations on compensation make it very difficult and time consuming to aggregate land holdings. The young population provides a supportive demographic for residential development but this is for low-mid range housing, a segment not well represented by listed enterprises. In Ho Chi Minh City (HCMC), for example, low end construction costs leave little margin for profit at current selling prices. Residential prices in Hanoi have fallen 30-35% from their peak but remain double that of HCMC. There is over supply of high end residential in both markets.

The government restriction on lending to the real estate sector has had greater impact in HCMC where fewer transactions are settled in cash or gold than in Hanoi. Nevertheless, once the banks have reduced exposure to the sector overall, it is possible that the government will release mortgage lending from the restrictions which will improve the prospects for residential property. Whilst the recovery may be at a moderate pace, the belief is that the worst is over.

Pharmaceuticals

Defensive and beneficiary of growing wealth

This sector has been defensive owing to a combination of the underlying non-cyclical nature of medicine and because consumers are buying more, as the population becomes more wealthy. Revenues have been growing at 12-15% and although costs have risen, the increases can be passed on to customers. Most stocks are generic producers of western style medicines but there are two prominent Chinese traditional medicine groups. The entry into WTO has meant that Vietnam has to abide by the intellectual property rights by 2012 which has resulted in higher levels of imports.

Energy

Petro Vietnam is the large SOE managing the oil and gas sector in Vietnam. This enterprise has spun off an off shore drilling group PVD and a natural gas distributor, PGD but no oil producing business has as yet been privatised. There is little refining capacity in Vietnam - about 130,000 bpd or c30% of domestic demand - so that refined oil is imported and crude exported.

Agriculture

Low valuations and encouraging prospects (overweight)

This sector lacks a major player since farming remains a fragmented market. However, there is a major fertiliser company, PetroVietnam Fertiliser & Chemicals (DPM) which has a market capitalisation of $577m. Most of the companies in this sector are trading at attractive valuations, from 4 to 5 times EPS. It is notable that there are no rice or coffee producing companies represented in the index.

PXP VF is overweight this sector with exposure to Dong Phu Rubber (DPR) and Binh Minh Plastics – a stock which has a $60m market cap and has reached its foreign ownership limit. DPR is among leading rubber companies in the listed market. The rubber producers: DPR, TRC and PHR, have a relatively low risk profile with strong cash flows and little debt. The profit margins tend to be protected since labour costs, which account for 40% of the cost of goods sold, can be controlled. Rubber companies are trading at more than a 50% discount to their NAVs.

Seafood is another promising sector. Pangasius, a species of shark catfish indigenous to South East Asian rivers, is exported to 140 countries in the world and is sold at a competitive price compared to other white fish. Vietnamese pangasius suppliers have been applying modern technology for farming and processing the fish, so that the products now comply with the strict fishery standards for the EU and USA. Leading companies in the seafood sector in Vietnam such as VHC and MPC are trading at very attractive valuations, about 3 to 4 times EPS.

Although their market capitalisations are small, the seed producing companies should not be ignored because they have a consistent growth profile and lower financial risks compared with other companies.

Investment Process and Strategy

Bottom up, research driven investment process

The investment process applied by PXP is research driven and bottom up. A team of 7 analysts led by Head of Research, David Kadarauch, provides detailed coverage which is presented to and critically assessed by the investment manager, Kevin Snowball.

Research team covers 90% of the market by capitalisation

The team collectively makes about 200 company visits each year, typically at least two visits for companies owned and the larger caps so that some smaller companies are visited annually. Visits are backed up with regular calls to management. The team covers 115 companies representing over 90% of the market by capitalisation and 17% by number. They believe that no other research team or brokerage has such an extensive capability and resource. This in itself is a strong differentiator for investors into PXP VF.

Analysts report that companies tend to be quite helpful although some are less forthcoming than others. Guidance is typically very conservative – often more than 30% lower than the actual performance – and in some sectors accounting treatment requires caution. However, the analysts produce their own models and forecasts and report that negative surprises are infrequent.

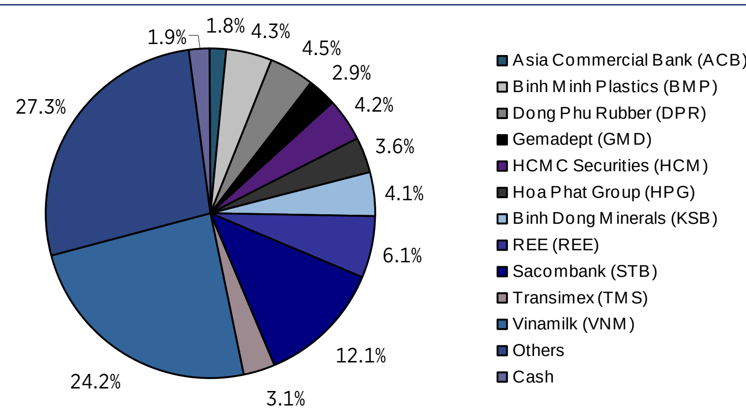
The team conducts a daily meeting following the market close (the market opens between 08:30 and 11:00 Mon-Fri) when results, news items and visits are discussed in detail. The debate benefits from the extensive large bank experience of Kadarauch and Snowball as well as the local understanding of the analysts. The result is a rigorous analysis and lively discussion.

Stock selection: conviction buys

Stock selection and asset allocation is entirely decided by Snowball. The fund is long only and focuses on absolute returns. It does not hedge or borrow. Cash positions can rise to 30% but are generally low and mostly held in Dong. Snowball invests in 'conviction buys' searching for value in well managed businesses.

Current position

PXP VF Current Holdings

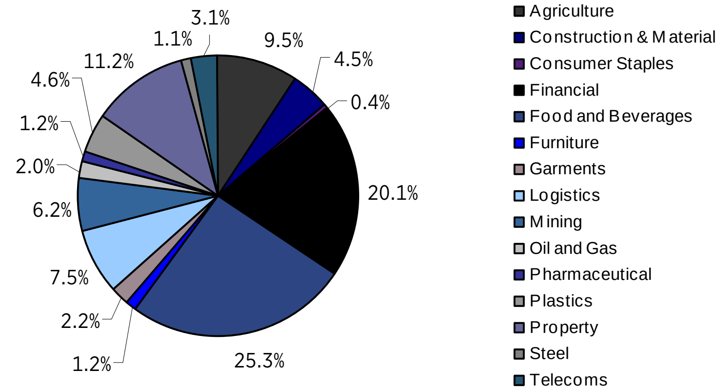


Source: Company – October 2011

Vinamilk – a favoured stock is 24.2% of the fund

What is notable in the breakdown above is the heavily overweight position in Vinamilk. This has arisen from the strong out performance of the shares during the life of the fund. The stock trades on FY11E PE of 11.1x falling to 9.3x FY12E. This compares with the Food & Beverage sector on 14.3x falling to 12.1x FY12E. Vinamilk is also trading at a 40% discount to regional peers. The stock has reached its foreign ownership limit so that new foreign entrants to the market can only gain access if a foreigner divests.

PXP VF: Current Sector Breakdown



Source: Company - October 2011

Bottom up approach leads to some variances with market weights by sector

With the bottom up approach, the asset allocation of the fund is often considerably different from the index/market weightings. A clear example is the exposure to the financial sector: PXPVF has a weighting of 18% being banks and brokers whereas the neutral market weight is 25%. An important variance with the market is the stance regarding MSN, BVH and VIC none of which are in the fund due to their high ratings but which are significant weights in the market. Consequently, PXPVF could underperform in the very early stages of a rally in the market but should quickly catch up.

Performance

Good performance vs. benchmarks

The performance over the longer term of PXPVF compared with the VNI has been strong and, as shown below, the fund has outperformed over all periods except the One Year data.

PXP Vietnam Fund: Performance

	1 Month	YTD	1 Year	3 Years	5 Years	7 years
PXPVF (ex fees)	-1.5%	-19.3%	-16.4%	5.3%	-31.4%	43.9%
VNI (in US$)	-2.4%	-19.4%	-13.7%	-2.8%	-37.0%	35.6%

Source: Company

The fund performance relative to the benchmarks on a calendar year basis (shown below) provides further verification. PXPVF tends to outperform in a rising market but has performed close to, if marginally worse, in a falling market. The performance is net of fees, which clearly reduces the valuation a little, and is also achieved without gearing.

PXP Vietnam Fund: Performance relative to benchmarks

%	PXPVF NAV	VNI (US$)	FTSE VN (US$)
YTD	-19.28	-19.40	-37.00
2010	-17.17	-7.16	-15.83
2009	76.62	48.31	38.10
2008	-70.86	-68.81	-68.13
2007	37.95	23.61	-
2006	149.40	142.38	-
2005	20.67	27.33	-

Source: Company

Management and Governance

Executive Management

CEO, CFO, COO and Head of Research have extensive Asia experience

Kevin Snowball is the founder and manager of PXPVF. A graduate of the School of Oriental and African Studies, University of London, Snowball worked in Hong Kong from 1985 to 1995 as a specialist manager and trader of proprietary funds in equities and equity derivatives markets in HK and South East Asia. He worked at Barings Securities and Deutsche Morgan Grenfell where he established their HK equities derivatives businesses. He spent the following 7 years in the UK where he expanded his coverage into global emerging markets working for Dresdner Kleinwort Benson, Bear Stearns and ABN Amro. In 2002 Snowball moved to Vietnam and established PXP Asset Management.

PXP has c$100m under management, PXPVF the flagship fund

The asset manager has funds under management of c$100m in two vehicles as well as a segregated mandate. PXPVF was launched in 2003 with just $5m and, as the group's flagship fund, has grown to $c43m. It was the first fund launched by PXP as well as being the first Vietnam focused purely equity country fund.

Central to the asset allocation and stock selection is the research team, now headed by David Kadarauch who joined the group in July 2011. The analysts have been with PXP for between 2 and 7 years so that the team is well established. Kadarauch has 25 years investment experience in Asia, Central-Eastern Europe and the UK. He has headed several top-ranked research teams for the sell side including Jardine Fleming and ABN Amro in Bangkok, Mumbai and Seoul and for Wood & Co in Prague and Warsaw. Kadarauch came to Vietnam in 2010 with a local broker Mekong Securities and led the research team there which was awarded the Bloomberg prize for best research product in Vietnam.

John Gavin, who joined in 2008, is CFO for the fund and asset management business. He brings 17 years experience with PWC, nine of which have been in Vietnam. Gavin is a specialist in IFRS, Vietnamese accounting standards and Risk Management Compliance. Joelle Daumas-Snowball who joined in 2006, is Chief Operating Officer and Legal Counsel and she has 17 years of international commercial, corporate and financial law, again much of which has been in Vietnam.

Board of Directors

Board of 5 are all non-executive and independent

The Board is composed of five non-executive directors and chaired by Philip Smiley who has spent 25 years of his career based in Asia. His appointments included working for the HK Government Civil Services and Economics branches before switching to broking and heading up Jardine Fleming in Korea, Singapore and Thailand where he also oversaw Jardine Fleming operations in Indo-China. Smiley is also a board director of Arisaig India Fund, Fidelity Asian Values PLC and The Endowment Fund SPC.

Experience in Asia, Vietnam and European fund management

Ms Do Thu Ngan, a Vietnam national, was appointed to the Board in June 2011. She was the former CFO and deputy CEO of Sacombank, a leading Vietnamese bank. Her knowledge of the Vietnamese market and financial services complements what is essentially a European board (although with extensive Asian experience). Anthony Jordan has had 27 years of investment experience in Asia and Christopher Vale's experience of managing funds in Asia also dates back to 1985. Urs Bolzern is a Swiss-based investment professional who provides a European investment perspective to the board.

Corporate Governance

Robust corporate governance, custodians HSBC in HK and Singapore

All the corporate governance procedures and committees are in place. From a practical perspective, the group uses HSBC as the custodian with the HSBC branch in Vietnam being the sub-custodian. This enables PXP to deal directly with branches of HSBC in Hong Kong and Singapore rather than a local custodian. Investing in equities in Vietnam is a transparent process with regulated rates of commission. Shares are scrip-less and brokers can only sell stock which they have confirmed is held by the relevant party, or buy if cash is available for clearing. Previously, funds could only deal through one broker. However, this regulation has been relaxed so PXP is looking into opening accounts with up to 4 or 5 brokers for the fund. The due diligence process is underway at present to consider capital adequacy of the brokers along with the fee structure and market share.

Financial Model

Future performance dependent on equity market: difficult to predict but assume driven by EPS growth

The financial performance of the fund is clearly entirely reliant on the market performance of the underlying securities. Forecasts should therefore be viewed as illustrative rather than expressing conviction in quantum change in the market over the forecasting period. We believe the prospects for the market are positive and that a market PE of 10x is quite plausible (ie today's historic valuation on earnings). We have merely forecast an 18% rise in the market in FY12 based on estimated earnings growth for the market over that period. For subsequent years we have forecast further advances of 10%pa.

We do expect the market to re-rate but this process could be delayed until 2Q12 when there is clearly lower inflation and provided that currency devaluation has been avoided. Whilst the market has ranged from a valuation of 8x to as high as 35x we would expect that a rating in the mid teens would be sustainable over the longer term.

The management fee of 2% is calculated monthly and charged to the fund as the management fee for the following month. Consequently for FY11 the management fee is based on end of month valuations from September 2010 to August 2011 and so on. Other costs are related to turnover – brokerage, custodian fees etc. or Directors fees. Excluding the management fee, costs amount to less than $500,000 pa.

The directors do not intend to distribute dividends.

Valuation and Recommendation

11.8% discount to NAV compares well with peers

The valuation reflects the updated NAV for the fund, which is reported daily on the web site along with the risk discount. Clearly, the liquid nature of the PXPVF equities assets results in a lesser discount to NAV than the more subjective valuations for property or infrastructure.

PXP Performance: Peer Comparison

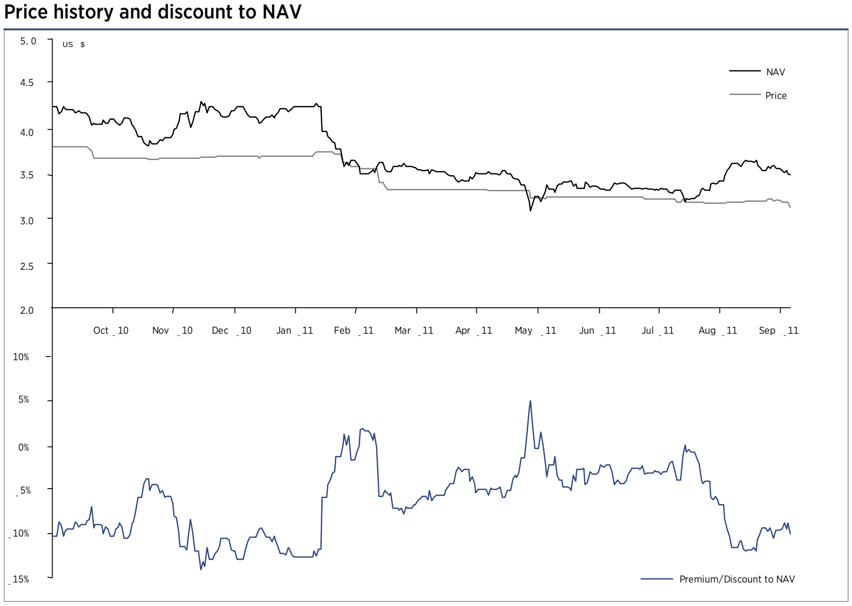
Fund	Price US$	NAV/s US$	Market Cap US$ m	Discount/NAV %	Price Change % 1Month	3 Months	1 Year
JSM Indochina	0.15	0.16	31.6	-6.1%	10.4	8.3	-48.2
VNF - PXP Vietnam Fund	3.03	3.43	36.5	-11.8%	-1.3	-4.9	-17.2
VNH - Vietnam Holdings	0.76	1.14	41.0	-33.2%	9.5	22.8	-17.2
VNI - Vietnam Infrastructure Fund	0.22	0.50	92.3	-56.0%	-7.2	-15.5	-41.2
VNL - Vinaland Fund	0.62	1.35	372.4	-54.1%	8.3	-0.8	-16.2
VOF - VinaCapital Vietnam Opportunities Fund	1.38	2.33	429.0	-40.8%	3.0	-0.4	-21.9
VPF - Vietnam Property Fund	0.62	0.76	60.3	-18.8%	-10.1	-10.1	-9.2

Source: Datastream

Believe 10-15% discount to NAV sustainable

For PXPVF, a 10-15% discount to NAV we believe is sustainable and in line with earlier performance. We would expect this margin to narrow if the prospects for Vietnam recover and it is conceivable that a premium will be achieved in a more positive market environment. Clearly there is plenty of retail investment poised to move into equities and out of gold once confidence in the currency is restored and the economic scenario becomes more favourable.

Price history and discount to NAV



Source: Bloomberg and Company

Attractive access to the market which we believe is set to recover

We consider PXP VF to be an attractive means to access the Vietnam market since it is a professionally managed 100% equity vehicle. Visibility of returns is good given the monthly portfolio disclosure and NAV and costs of just 2% management in addition to minimal transaction and custodial costs are not aggressive. At present, 24% of the portfolio is in Vinamilk which has been a strong out performer and is unavailable to new entrants to the market since the foreign ownership limit has been reached.

The outlook for Vietnam from a macro perspective is, we believe, improving and the relative attraction of domestic equities compared with other asset classes is also becoming favourable. Our target price of $3.32 represents a 15% discount to the average FY11/12E NAV. This recognises the upside but reflects the risks by applying the higher than historical discount. Clearly, since the NAV is transparent and published monthly, shares will actually trade with reference to the current data.

Initiate with ADD and $3.32 target price.

We therefore initiate coverage with an ADD recommendation, reflecting both the encouraging outlook and the risks involved with emerging market investments.

Financial model

Income Statement

Year end September ($m)	2009A	2010A	2011E	2012E	2013E
Group revenue	26.5	(13.1)	(7.5)	10.1	8.1
Cost of sales	(0.8)	(1.2)	(0.8)	(0.9)	(1.1)
Gross profit	25.6	(14.4)	(8.3)	9.1	7.0
Total operating expenses	(0.2)	(1.0)	(0.5)	(0.5)	(0.5)
EBIT	25.4	(15.4)	(8.8)	8.6	6.5
Net interest/financial income/(cost)	0.0	0.0	0.0	0.0	0.0
Associate and Other non-op. income/(cost)	0.0	0.0	0.0	0.0	0.0
PBT	25.4	(15.4)	(8.8)	8.6	6.5
Tax	0.0	(0.0)	0.0	0.0	0.0
Effective tax rate (%)	0.0	(0.1)	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Earnings	25.4	(15.4)	(8.8)	8.6	6.5
EBITDA	25.4	(15.4)	(8.8)	8.6	6.5
Adjusted EBITDA*	25.4	(15.4)	(8.8)	8.6	6.5
Adjusted EBIT*	25.4	(15.4)	(8.8)	8.6	6.5
Adjusted PBT*	25.4	(15.4)	(8.8)	8.6	6.5
Adjusted earnings*	25.4	(15.4)	(8.8)	8.6	6.5
DPS (c)	0.0	0.0	0.0	0.0	0.0
EPS (c)	2.1	(1.3)	(0.7)	0.7	0.5
EPS [F. Dil.] (c)	2.1	(1.3)	(0.7)	0.7	0.5
EPS [Adj.]* (c)	2.1	(1.3)	(0.7)	0.7	0.5
EPS [Adj. F. Dil.]* (c)	2.1	(1.3)	(0.7)	0.7	0.5
Weighted average no. shares (m)	12.0	12.0	12.0	12.0	12.0
Fully dil. w. ave. no. shares (m)	12.0	12.0	12.0	12.0	12.0
Year end no. shares (m)	12.0	12.0	12.0	12.0	12.0

* excludes exceptional items and amortisation of acquired intangibles.

Source: Company data, Seymour Pierce Ltd

Cashflow Statement

Year end September ($m)	2009A	2010A	2011E	2012E	2013E
Operating income	25.4	(15.4)	(8.8)	8.6	6.5
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0	0.0
Amortisation of other intangibles	0.0	0.0	0.0	0.0	0.0
Depreciation	0.0	0.0	0.0	0.0	0.0
Net change in working capital	0.0	0.0	0.0	0.0	0.0
Other	(25.3)	14.7	8.8	(8.6)	(6.5)
Operating cash flow	0.0	(0.7)	0.0	0.0	0.0
Capital expenditure	1.7	(2.5)	(0.5)	(0.4)	(1.5)
Investment in Other intangibles	0.0	0.0	0.0	0.0	0.0
Net interest/financial income/(cost)	0.6	0.3	0.8	0.9	1.5
Tax paid	0.0	0.0	0.0	0.0	0.0
Net acqns./disposals	0.0	0.0	0.0	0.0	0.0
Dividend paid	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Cash flow before financing	2.3	(2.9)	0.3	0.6	0.0
Proceeds from shares issued	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Net movement in cash/(debt)	2.3	(2.9)	0.3	0.6	0.0
Opening net cash/(debt)	0.7	2.9	0.0	0.3	0.9
Adjustments (Forex, etc.)	(0.0)	0.0	0.0	0.0	0.0
Closing net cash/(debt)	2.9	0.0	0.3	0.9	0.9

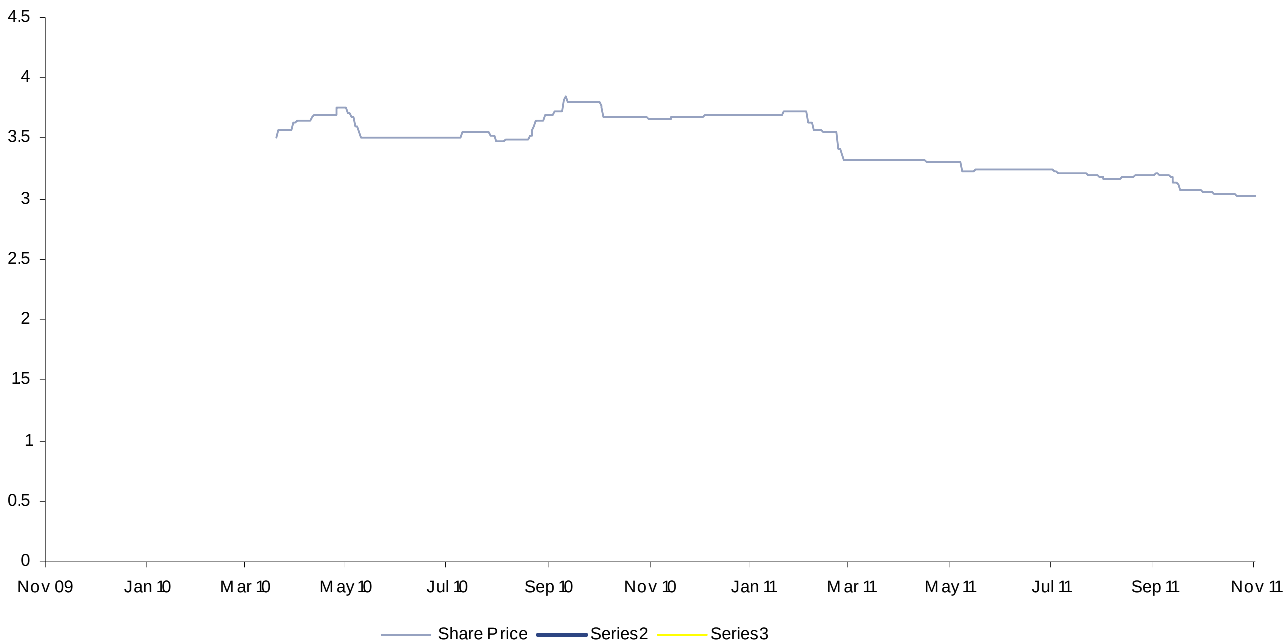
Source: Company data, Seymour Pierce Ltd

Balance Sheet

Year end September ($m)	2009A	2010A	2011E	2012E	2013E
Property plant and equipment	0.0	0.0	0.0	0.0	0.0
Goodwill and Acquired intangibles	0.0	0.0	0.0	0.0	0.0
Other intangibles	0.0	0.0	0.0	0.0	0.0
Other fixed assets	0.0	0.0	0.0	0.0	0.0
Non current assets	0.0	0.0	0.0	0.0	0.0
Stocks & WIP	0.0	0.0	0.0	0.0	0.0
Trade receivables	0.6	0.1	0.5	0.3	0.3
Cash	3.0	0.2	0.3	0.9	0.9
Other current assets	68.9	51.4	41.8	50.4	56.8
Current assets	72.5	51.7	42.7	51.6	57.9
Total assets	72.5	51.7	42.7	51.6	57.9
Trade creditors	0.1	0.2	0.2	0.5	0.4
Short term borrowings	0.0	0.0	0.0	0.0	0.0
Long term borrowings	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.0	0.0	0.0	0.0	0.0
Total liabilities	0.1	0.2	0.2	0.5	0.4
Net assets	72.4	51.5	42.5	51.1	57.5
Issued share capital	0.6	0.6	0.6	0.6	0.6
Share premium account	34.0	34.0	34.0	34.0	34.0
Retained earnings	43.9	28.5	19.7	28.3	34.9
Other reserves	(6.2)	(11.7)	(11.7)	(11.7)	(11.7)
Minority interests	0.0	0.0	0.0	0.0	0.0
Total equity	72.3	51.3	42.5	51.1	57.7

Source: Company data, Seymour Pierce Ltd

Target Price & Recommendation History



Source: Datastream, Seymour Pierce Ltd

Key to material interests

1. The analyst has a personal holding of the securities issued by the company, or of derivatives related to such securities.
2. Seymour Pierce Limited or an affiliate owns more than 5% of the issued share capital of the company.
3. Seymour Pierce Limited or an affiliate is party to an agreement with the company relating to the provision of investment banking services, or has been party to such an agreement within the past 12 months. Our corporate broking agreements include a provision that we will prepare and publish research at such times as we consider appropriate.
4. Seymour Pierce or an affiliate has been lead manager or co-lead manager of a publicly disclosed offer of securities for the company within the past 12 months.
5. Seymour Pierce is a market maker or liquidity provider in the securities issued by the company.
6. Seymour Pierce is party to an agreement with the company relating to the production of research recommendations.

Distribution of ratings

Our research ratings are defined with reference to the absolute return we expect over the next 12 months:

Rating	Definition
Buy	Absolute return expected to be more than 10%
Add	Absolute return expected to be between 5% and 10%
Hold	Absolute return expected to be between -5% and +5%
Reduce	Absolute return expected to be between -5% and -10%
Sell	Absolute return expected to be less than -10%

As from 25 October 2010 the nomenclature of our recommendation was changed. Prior to that time Add recommendations were described as Outperform and Reduce recommendations were described as Underperform.

As at 18 November 2011 the distribution of all our published recommendations is as follows:

Rating	Proportion of recommendations	Proportion of these provided with investment banking services
Buy	63%	56%
Add	3%	60%
Hold	21%	13%
Reduce	4%	17%
Sell	8%	0%

Important Notes

Seymour Pierce Limited
20 Old Bailey, London EC4M 7EN

Switchboard: +44 (0)20 7107 8000
Corporate Finance fax: + 44 (0)20 7107 8100
Research + Sales fax: +44(0)20 7107 8102

www.seymourpierce.com