

Wednesday July 4, 2012

## The Market

### VNX Fell on Manufacturing Contraction; EdL Gen Jumped Despite PO; CSX Unchanged

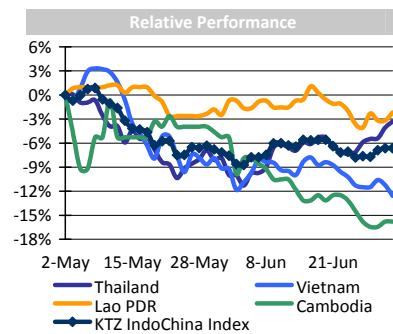
VN Index fell for the second day in 3Q to close at 413.09, down 1.48% on Tuesday following a report that HSBC Vietnam's June manufacturing contracted for the third month in a row. Among 30 blue chips in the VN30 Index, only HCM City Infrastructure Investment Co (CII) and Hung Vuong Corp (HVG) bucked the trend, up 2.6% and 1.3% respectively. The HCM market turnover was low for the second day at VND 678.7 billion (USD 32.5 million). Foreign investors remained net buyers worth VND 17.8 billion (USD 800,000), the fourth straight day of buying.

LSX Index rebounded to close at 999.94, up 1.02% on moderate turnover of LAK 1.26 billion (USD 100,000). The market gains and volumes were driven by EdL Gen, which jumped 1.08% to close at LAK 4,700 with 271,000 shares changing hands, despite the announcement of its public offering's subscription period. BCEL gained 0.74% to close at LAK 6,850 with only 822 shares traded. Meanwhile, the CSX Index was unchanged at 688.17. The market turnover was low at KHR 72 million (USD 17,500).

Despite the positive news on easing inflation, some investors remain cautious on the economic prospects. The government's GDP growth target of 6% might be too optimistic given Vietnam's 1H12 GDP growth of 4.4%y-o-y. Other report showed manufacturing sector contracted further in June. However, we believe both accommodating fiscal and monetary policy would be positive drivers for businesses and bolster the economy in coming quarters. Meanwhile, EdL-Gen of the Lao market offers a good entry point at this level.

## The News

- **Vietnam** - HSBC Vietnam Manufacturing PMI Falls to 46.6, Three Months of Contraction
- **Cambodia** - Small Growth for Phnom Penh's Water Utility
- **Lao PDR** - EDL Agreement Inked for Power Supply to Sepon Mine
- **Lao PDR** - Finance Minister Proposes Lowering Tariffs on Imports and Exports
- **Myanmar** - Myanmar Frees At Least 20 Political Prisoners



Source: Bloomberg as of July 3

|                    | Last  | Chg | (%)  |
|--------------------|-------|-----|------|
| <b>FTSE ASEAN</b>  | 561   | +7  | +1.3 |
| <b>Singapore</b>   | 2,945 | +35 | +1.2 |
| <b>Thailand</b>    | 1,198 | +9  | +0.8 |
| <b>Malaysia</b>    | 1,608 | +7  | +0.4 |
| <b>Indonesia</b>   | 4,050 | +58 | +1.5 |
| <b>Philippines</b> | 5,366 | +65 | +1.2 |
| <b>Vietnam</b>     | 413   | -6  | -1.5 |
| <b>Lao PDR</b>     | 1,000 | +10 | +1.0 |
| <b>Cambodia</b>    | 688   | 0   | 0.0  |

Source: Bloomberg as of July 3

| Per USD     | Last     | Chg    | (%)   |
|-------------|----------|--------|-------|
| <b>Baht</b> | 31.48    | -0.12  | -0.38 |
| <b>Dong</b> | 20,890   | +10.00 | +0.05 |
| <b>Kip</b>  | 8,016.00 | +1.50  | +0.02 |
| <b>Riel</b> | 4,116.30 | +18.15 | +0.44 |
| <b>Kyat</b> | 880.64   | +8.48  | +0.97 |

| Per Baht    | Last   | Chg   | (%)   |
|-------------|--------|-------|-------|
| <b>Dong</b> | 663.81 | +2.57 | +0.39 |
| <b>Kip</b>  | 254.72 | +1.10 | +0.43 |
| <b>Riel</b> | 129.00 | 0.00  | 0.00  |
| <b>Kyat</b> | 27.98  | +0.38 | +1.39 |

Source: Bloomberg as of July 3

### Upcoming Market Holiday:

#### Thailand

- Aug 2: Asarnha Bucha Day
- Aug 13: Substitution for H.M. The Queen's Birthday

### Corporate Action:

#### Lao PDR

#### 1) EdL Gen's Right Offering (RO)

- June 21: Ex-Right Date (XR)
- June 22: Record Date
- June 26-July 6: Subscription Period
- July 31: New Shares Listing Date

#### 2) EdL Gen's Public Offering (PO)

- July 4-11: Subscription and Payment Period

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### Vietnam - HSBC Vietnam Manufacturing PMI Falls to 46.6, Three Months of Contraction

Vietnam's manufacturing slowdown continued for the third month in a row in June despite distinct reductions in output prices due to weaker demand and falling raw material costs, said a report from the Hong Kong – Shanghai Banking Corp (HSBC). The slowdown was highlighted by a drop from 48.3 in May to 46.6 in June in the seasonally adjusted HSBC Vietnam Manufacturing Purchasing Managers' Index (PMI). The PMI dropped from 49.5 in April to 48.3 in May, its lowest level for three months, and from 50.0 in March to 49.5 in April, signaling that overall business conditions worsened slightly over the month, following stagnation during the previous survey period. The latest PMI data pointed to further worsening of business conditions across the Vietnamese manufacturing sector, and was the sharpest decline since February, said the report compiled by HSBC-appointed partner, Markit. *The slowing down in manufacturing sector is widely seen in most part of the world, particularly in major economies. For Vietnam, thanks to the declining inflation, the government has been on accommodating fiscal and monetary policies since the beginning of the year. The State Bank of Vietnam has been lowering domestic rates five times so far this year in an effort to ease the economic hardships. The Vietnam Dong is stabilizing which is a factor comforting investors. We believe it might take sometime for the accommodating policies to bear fruits. It is probably a good opportunity to re-look at Vietnam for bottom-fishing.*

### Cambodia - Small Growth for Phnom Penh's Water Utility

Phnom Penh Water Supply Authority saw 8.2% revenue growth during the first quarter of the year, a welcomed disclosure after the retirement of the state-owned firm's general director was announced last week. The firm took in US\$7,725,500 between January and March, up from \$7,140,473 during the same period last year, according to a financial statement released on Friday. Expenditure rose quicker at 9.4% during the quarter, data showed. The company expended \$5,844,742 during the period, compared to \$5,340,362 in Q1 2011. Rising water consumption, new customers and an exchange-rate dividend accounted for increased revenues, said Ros Kimleang, chief of PPWSA's accounting and financial department. Increased electricity cost largely contributed to the rise in expenditure, he said. "I do believe that we will keep growing as we maintain our good business performance," Ros Kimleang said. "We are going to install a solar system in order to reduce the cost of purchasing electricity." Power expenditure accounted for about 50% of the firm's operating costs, he added. Performance of PPWSA has been far from impressive after its debut in April. *The stock, closed at Riel 6,400 (USD 1.59) Friday, just above its IPO price of Riel 6,300 (USD 1.54). We believe the stock price at the current level offers a good entry point for long-term core holdings. The key risk is the poor trading liquidity of PPWSA.*

### Lao PDR - EDL Agreement Inked for Power Supply to Sepon Mine

Electricite du Laos (EDL) has promised to ensure a stable supply of electricity to the Sepon mine as the power demand of the largest mining operation in Laos continues to rise. EDL management signed an agreement on Monday with Lane Xang Minerals Co Ltd partners, which operates the Sepon mine in Vilabouly district, Savannakhet province, to renew the Power Purchase Agreement amid rising power consumption at the gold and copper processing plant. Under the agreement, which is valid for five years, Electricite du Laos will continue to supply electricity to the Sepon gold and copper mine at a price of 647 kip per kWh. The price of electricity for major operations is lower than for residences and small to medium enterprises because the government wishes to encourage investment in large industry. The state-owned enterprise, which holds a monopoly on the distribution of electricity, will also import power from Thailand to ensure the supply to the largest mining operation remains stable. The price of imported electricity will be established by another agreement with the Electricity Generating Authority of Thailand. *Electricity demand in the Indochina region has been rapidly growing in tandem with the strong economic growth of around 5-7% range among Indochina countries. It is estimated that by 2015, Lao will be the net exporter of electricity to its neighboring countries namely Thailand, China, and Vietnam. Thailand is buying over 5,000 megawatts of electricity from Laos under a bilateral agreement in which the maximum amount of electricity traded is set at 7,000 megawatts. Lao's hydropower is the most important energy resource, with potential estimated at about 26,000MW.*

### Lao PDR - Finance Minister Proposes Lowering Tariffs on Imports and Exports

Financial leakages could be reduced if the government imposes lower tariffs on imports and exports, according to Finance Minister Mr Phouphet Khampounvong. The minister said the lower tariffs would create an incentive for traders to pay the tariffs based on the country's laws, instead of bribing officials to help them evade payments. Mr Phouphet proposed the idea at the ongoing session of the National Assembly, saying that lowering tariffs would encourage traders to follow legal processes, and all their money could be utilised for national development. The minister found that there were more cases related to the evasion of tariff payments along the border areas due to incomprehensive management mechanisms, leading him to propose the idea. The revenue obtained from customs duty fell short of the target over the past eight months of 2011-12, due to weakness in financial management. Many traders declared the value of their imported goods to be lower than they actually were, leading to shortfalls in tariff payments. *By 2015, Asean members must cut import tariffs to zero in an effort to create a single Asean production base and market, where goods, capital and labor can flow freely. We believe Lao needs to improve the production efficiency of its local manufacturers. For instance, Lao cement producers are currently protected as the government impose a limit on the import of cheaper cement from Thailand. Lowering tariff would be a good catalyst for local producers to seriously prepare for upcoming competition.*

### Myanmar - Myanmar Frees At Least 20 Political Prisoners

Myanmar's reformist government granted amnesties for at least 20 political prisoners on Tuesday, but opposition leader Aung San Suu Kyi called for the release of hundreds more still behind bars. Zaw Thet Htwe, who monitors prisoner releases for the opposition, said more than 20 of 46 detainees granted amnesties by President Thein Sein were prisoners of conscience, and he was able to confirm that 14 had actually been freed. *Freedom for political prisoners is a benchmark used by Western nations critical of Myanmar's former military regime to judge Thein Sein's administration. Previous releases have been a major factor in decisions by those nations to ease economic and political embargoes they placed on the previous government for its poor human rights record and undemocratic rule. We expect increasing supports from EU, U.S., and other developed countries would follow suit.*