

Coincidence NOT Correlation

In the immediate aftermath of the world having taken a (blood) bath yesterday, some commentators have taken the easy route to an explanation of the potentially fatal malaise currently affecting the Viet Nam market. That “correlation” has broken down less than 24 hours later (we’re down 4% from the open and the rest of the world is bouncing) and we feel that papering over the very wide and deep local cracks now does no service to the long-term prospects for the recovery of the market.

The VNI set its all-time high on 12 March 2007; the Hang Seng on 30 October 2007; the Dow on 12 October 2007; the Sensex on 10 January this year; Shanghai A and B on 16 and 17 October 2007 respectively; and so on. I see some potential correlations there, but Viet Nam is not a likely member of the group. Instead, we get one day when the world happens to do the same as Viet Nam and all of a sudden we’re a mature market?

I will admit that foreigners pulling buy orders from every market in the world (including Vietnam) has a modicum of impact here, but since foreigners have, for several months, been responsible on average for far less than 20% of daily turnover, that “modicum” is not a particularly large one. The authorities need at this stage to be discouraged from avoiding responsibility for what is really happening here by pointing offshore and blaming the US, tempting as that might be for all of us.

- The Viet Nam Index went up this time last year when foreigners threw money at it indiscriminately and domestic investors were encouraged to follow suit by having margin financing similarly lobbed in their laps.
- The market came down when foreigners spent some time thinking about the cost of what they had bought while the authorities realized that they needed to restrict the inflation of the bubble rather than continuing to blow (if you’ll pardon the expression). Every temporary bounce since has had its roots in the rumoured relaxation of bank lending restrictions. Fundamentals? Huh?

Foreigners raised lots of money last year to buy the so-called “jewels”; the big cap state owned enterprises. Eventually, in December, after much debate and delay the authorities remembered that that was what we were waiting for, and so along came Vietcombank. Possibly due in part to the rhythmic similarity of the letters ‘b’ and ‘e’ – as in “but why should we give our prized assets away at only 10 times” (p to the former) “when everyone keeps telling us that the market is on 30 times” (p to the latter) – and possibly also due to a fear that a Petro China first day multiple of the IPO price might result in some criticism, the issue was ridiculously overpriced and stuttered (but made it at least as far as yesterday, when everyone was due to pay up). This rationale might be taken to suggest an essential lack of comprehension of markets and market forces (China, as indicated above, was still going up at the time, whereas Viet Nam had been in a bear market for months) combined with good, old fashioned greed.

PXP VIETNAM
FUND LTD



PXP VIETNAM
ASSET MANAGEMENT

PXP Vietnam Asset Management
Vietnam Representative Office
6th Floor, Opera View Building
161 Dong Khoi, District 1
Ho Chi Minh City, Vietnam

Tel. N^o. + (848) 827 6040
Fax N^o. + (848) 827 6043
www.pxpam.com

8 August 2007

PXP VIETNAM
FUND LTD



PXP VIETNAM
ASSET MANAGEMENT

PXP Vietnam Asset Management
Vietnam Representative Office
6th Floor, Opera View Building
161 Dong Khoi, District 1
Ho Chi Minh, Vietnam

Tel. N^o. + (848) 827 6040
Fax N^o. + (848) 827 6043
www.pxpam.com

However, the Vietcombank auction was, on the face of it, a success with all stock sold, and at a premium to the minimum price. True success will be measured by what proportion of successful bidders ultimately honour their obligations. In any event, the perceived success of the Vietcombank auction encouraged Saigon Brewery to adopt a similarly optimistic view of the likely appetite for all things Vietnam, only to discover that appetite for such issues is not necessarily infinite.

The Dutch auction system is one which facilitates over-enthusiasm without base price being the major determinant. The conviction that one may be able to obtain a bargain is important; if conditions are right the market will set a relatively high price, if not then 15 or 20 times *real* earnings (as opposed to “but realistically they’ll make a lot more money than forecast next year – we’re just trying to keep the price down”) isn’t a bad place to end up. Participants in the market could still benefit from a better understanding of what a price to earnings ratio actually *means*, of course, in order to comprehend why 15 or 20 times earnings is eminently reasonable for all sides. As we have said before, *pricing* issues to sell is much easier than attempting to *time* them to sell. Sabeco and Vietcombank needed to be pitched at the very top of a rampant bull market in order for all the shares offered to be taken up. Unfortunately, and pretty obviously, we are not even in the same geographical area as a bull market any more.

It is time for the authorities to decide what Vietnam is really trying to achieve through the development of its capital markets rather than continually creating uncertainty, with auctions regularly announced and then delayed, with or without due notice. Otherwise we’ll still be going down when the rest of the world is re-testing previous highs. Perhaps then more people will understand that “correlation” is a statistically demonstrable relationship, and not just a word, and that when people say that “markets like certainty” it is because it is true.

Kevin Snowball
Singapore
23 January 2008