This week’s IMF meetings in Tokyo are continuing apace, even with China sitting outside in an apparent huff. Nobody can agree on the correct policy to drag the world out of its current economic funk. Except Bernanke. Ben is convinced that what is good for America is good for everyone else too, yet funny enough, others on the receiving end of QE3 don’t seem to see it that way. Bernanke gave a “strongly worded” speech encouraging policy makers in developing economies to let their currencies appreciate. Many have been easing or cutting interest rates to match the decline in the USD to protect exports. That won’t wash with Washington, however. Metaphorically wagging his finger, Ben told the educated crowd of central bankers, if you just let your darn currencies go up then you won’t have to worry so much about inflation and potential
asset bubbles. He summed up his point of view thusly:

“The perceived benefits of currency management inevitably come with costs, including reduced monetary independence, and the consequent susceptibility to imported inflation.”

While Mr. Bernanke could easily be accused of the same, the message was clear, “When I’m printing money to devalue the dollar and stimulate US exports – don’t get in the way!”

Though not in attendance, China will be watching this closely. Even with a stumbling economy, the Rmb has appreciated 2% since July and is now at a 19-year high vs. the dollar, yet capital flight appears to be accelerating. Could this have anything to do with the US presidential election? My view: You bet. China is doing all it can to make sure an undervalued Renminbi does not become a focal point of the US election. After Obama’s re-election, expect to see the Rmb revert to depreciation.

What about the locals? What are they doing with the Redback? According to calculations by the Wall Street Journal, in the last 12 months a record amount, or $225 bn has “leaked out of China.” Other analysts put the figure higher at around $300 bn, which is close to a billion a day. This is a tidy sum of money and as I look around my neighborhood and see more and more Chinese fresh from China buying houses here, it makes me wonder. China’s closed capital account means regulations restrict normal Chinese to moving only $50,000 per year out of the country yet, “The wealthy in China have always had an open capital account,” said Eswar Prasad, a Cornell University economist. If getting money out of the country is not the problem, the question is why are so many so keen to do so? And why now?

Other than that ironic tidbit, news flow this last week has been boring, repetitive, very thin gruel and I hardly feel like Oliver Twist and asking, “Please sir, can I have some more?” Post Golden Week, China is in lock-down mode until this once in a decade and big pain in the arse leadership transition is completed. The only thing we have to look forward to in the interim is Bo Xilai’s show trial.
Speaking of entertainment, Korean internet analyst, Woocheol Jeong finagled a trip down to Vietnam last week with movie theater king, CJ CGV (079160 KS) and reported on the facts in the excitingly titled, “Vietnamese moviegoers to drive growth.” It is actually an interesting story so let’s amp up the Dolby speakers a bit and listen in.

As one would suspect, Vietnamese are human, they like movies and there are around 90 million of them. However, they only watch, on average, 0.2 movies a year (maybe the movies they get are as bad as the ones I see advertised here in Seattle). The reason for such a low participation rate, it turns out, is due to there only being 1,000 movie theaters in the entire country, or just one for every 90,000 potential fans of Brangelina. Into this vacuum boldly stepped CJ CGV in 2005 via a 94% stake in Envoy Media Partners, which holds an 80% stake in Megastar, the movie theater leader with a 33% market share in the severely under-represented multiplex cinema segment.

Megastar is also Vietnam’s #1 film distributor with exclusive rights to films produced by United Int’l Pictures, 20th Century Fox, WB and Disney, among others. What kind of movies are they watching? The top 2 movies last year in Vietnam were, Kung Fu Panda 2 (groan…) and locally made Long Ruoi: the story of a hillbilly arriving in Saigon and pretending to be a famous gangster. This part of the business sounds more exciting that it really is, however. Ticket sales account for 60% of Megastar’s revenues and concession stand sales (squid on a stick) are another 30%.

Woocheol is forecasting 28% growth this year in Megastar’s theater attendance rate. The company is also opening 4-5 new sites annually to maintain its dominant market share. Ticket prices average US$5 for 2D movies and up to $7.50 for the 3D make-you-dizzy-enough-to-forget-there-is-no-plot specials. The concern here is do they have the pricing power to raise ticket prices enough to match Vietnam’s recent galloping inflation rate? Considering their large market share in a premium segment of a totally under penetrated market, my view is yes, they probably do.
The next question is; do they make money here in this part of Indochine? Megastar earned US$4.7 mn last year and Woocheol forecasts that will jump to over US$7 mn this year. The next question is; does this move the needle for CJ CGV, a US$650 mn market cap company with US$500 mn in revenues last year? With forecast operating profit this year of US$80 mn, the answer is it is starting to.

The last question: do you buy the stock now as it is reaching new highs after having jumped 11% in the last two weeks? CJ CGV is still only trading at 11X FY 12 estimates and earnings growth this year looks to be in the 15% range and solid. While touching new highs is scary, the story could be going through a re-rating given a growing domestic Korean market where they are enjoying expanding market share with the Vietnam angle an added sweetener.
Q: When does a person decide to become a stockbroker?

A: When he realizes he doesn’t have the charisma to succeed as an undertaker.

What do you do as a stockbroker when the largest company by market value, which represents 10% of daily turnover, ups and leaves your country? Moreover, this is after the market has cratered 86% over 5 years and turnover has dried up by 90%? Well, if you still had a job in Athens as a broker, you just lost it. Coca-Cola Hellenic Bottling is the world’s second-largest Coke bottler with 95% of earnings outside of Greece. Tired of all the Greek jokes, the company is moving its listing to London which will cut the Greek stock market’s shrunken capitalization by another 21%! The result, according to some newspaper headlines, is the stock market in Greece will now be smaller than that in Vietnam ($31 bn vs. $35 bn).

I guess that is accurate but when you think about it, Vietnam has a growing population of 90 mn young consumers while the shrinking and aging population of Greece is just 11 mn. Vietnam’s GDP of $320 bn is also growing at 5% a year compared to Greece at $280 bn and a GDP shrinking faster than a schmekel suddenly immersed in freezing water. Vietnam should have a much larger market capitalization than Greece. Yet, Vietnam while always holding much promise has consistently failed to deliver. What happened to the “China +1” story?

Vietnam is currently in the throes of a credit crisis and is muddling along the well-trodden path of other emerging market economies who have “been there, done that.” From 2007 to 2011, credit and money supply averaged 30% growth. This expansion had the impact on inflation one would expect: it soared, reaching as high as 28%. As capital flight and pressures on the currency became too much to bear, the government clamped down. And they killed it.
Still Worth a Look

Inflation at 17.3% in January this year fell to 6.5% in September. Credit growth in the first nine months of this year fell to just 2.35%. Deprived of the cocaine of too-easy credit upon which it was increasingly reliant, Vietnam’s crack whore of an economy has passed out in the alley as well, with growth tumbling from 7-8% to just 4.4% now.

By capping loan growth and other types of credit, Hanoi threw a very large monkey wrench into the whole merry-go-round. Liquidity disappeared sooner than Sarah Palin’s credibility and hello, the previously hidden bad loans in the system came calling. Officially, NPLs in the banking system are around 4%. However, even the government doesn’t believe that number and commissioned a panel of experts to look into the matter. Their conclusion is the NPL number is actually around 11.35%. Other analysts believe it is even higher: 13-15%. How much money is that? Up to 13% of GDP - an enormous sum for a developing economy with 2.4 months of import cover in f/x reserves to absorb.
There are 99 banks in Vietnam and only eight are listed. A cursory examination of the ownership structures of many of them reveal large stakes held by SOEs or local tycoons. Unless one just fell of the bak choi truck yesterday, it shouldn’t be a surprise to guess where all those loans went. Deputy State Auditor Le Minh Khai admitted recently that non-core investments (property and stocks) for these secretive SOEs account for around 12% of their registered capital. The high profile collapse of Vinashin, Vietnam’s major state-owned ship builder was the first big domino to fall. Other huge octopi that have “large investments” outside their fields of expertise include Vinalines, the national shipping company, and the state utility Vietnam Electricity (EVN). One has to assume that like party-goers at La Tomatina, the big tomato fight in Spain held every August; no one else is clean either.
Dude, You Got it All Wrong

Ten years ago, the newly born Vietnam stock market traded just every other day. A move to daily trading, more listings, foreign capital and other factors all helped move things along and boom! We had a boom. From a humble level of 167 in 2004, the market leaped 1,000 points in two and a half years, or an increase of six times. Property was also in the middle of a speculative orgy. A visit to Saigon in 2007 reminded me of Taiwan’s early bubble back in 1989 – everyone was punting stocks and looking for the next tip. I wrote my (mostly negative) opinions about what I saw in a note sent out to clients. It was picked up by the Vietnamese press and the market fell 5% over two days. The upshot was a broker in Saigon even called me up in Hong Kong where I was working to tell me how I got it all wrong. (Let us pause and reflect on what he may be doing for a living now).

According to my calculations...we suck.

Big Mistakes

This week, Vietnam just concluded a closely-watched two week meeting of the 175-member Central Committee of the ruling Communist Party. Interestingly, while the party decided not to dismiss any rulers it apologized to the people for such lousy performance. “[We] for many terms now have made some big mistakes.” Prime Minister Nguyen Tan Dung, who was just appointed another 5-year term last year, was in particular humiliated by the Party’s statement at the end of the love huddle:

“Some senior officials, those currently in office... Have occasionally not been morally good role models... They have significantly impacted the prestige of the party and the state.”

Admitting to a problem (obliquely) may be the first step in fixing it and Vietnam has
admitted to “mistakes.” But is there really the political will to take on the parasitic SOEs and conduct true reform? **My view:** In a one party state this is highly unlikely. Painful past experience points us more toward the tired example of Japan and we should expect the Vietnamese to just try and “hold the center” and hope global economic cycles bail them out.

Aside from a non-transparent government, Vietnam suffers from rampant corruption with big money corruption at the top and little bribes necessary at the bottom. According to the **Global Integrity Report**, things are, well, just bad:

![GI - Integrity Indicators: Vietnam 2011](chart)

On the FDI front, while investment is down 27% from last year there are encouraging signs here. **Samsung Electronics** has just announced a $700 mn investment to produce more handsets in the country. This will be their second manufacturing plant there. Another example of MNC’s taking the long view is **Bridgestone**, which is investing almost $600 mn in a tire factory.
Meanwhile, Back at the Ranch

Back to the crisis at hand; while the true size of NPLs in the banking system, according to the World Bank and others is, “poorly understood.” There is much speculation that a bank recapitalization exercise will be needed. It was just this risk that last month caused Moody’s to downgrade Vietnam’s gov’t bond rating one level to B2, or five notches below investment grade. But where will the money – remember we’re talking around 13% of GDP here - for a recap come from?

As head of research at Vina Securities in Saigon, Andy Clarke, writes:

“Vietnam also has an aggressive infrastructure spending program amounting to US$15 bn per annum for the next six years. No politician wants to tell urban residents the money for clean water or more schools has been diverted to bail out corporate cronies and real estate speculators.”

While SOEs consume 60% of bank credit they account for just 33% of output. Andy’s view is any reforms that do not reach beyond the banks and tackle the SOE sector will not go far enough in putting the country back on a sustainable growth track.

In reality, most of the banks are toast with a rising NPL portfolio and wildly inaccurate estimates of the size which, as collateral quality continues to fall, is still growing. None of are ready for the consequences. More provisioning, as well as capital calls are likely to be seen in the near future. This will be followed up by a recapitalization of the entire sector and the formation of some sort of the toxic asset dump (asset management corporation). Many small bad banks will be “encouraged” to merge so they can compete with the large bad banks. This is still ahead of us, though.
Run! It’s the Unholy Trinity

Attempting to fix the Vietnamese banking sector alone, however, is just cutting the head off one of the unholy trinity: the banking sector (Satan), which is in bed with the SOEs (the Antichrist), which are in bed with the property companies (the False Prophet – or False Profit, if you prefer). Full reform of all three is a necessity for Vietnam to shift its economy to “good growth,” or onto a more durable, less volatile path. However, those scouring the horizon for true reformers will rub their eyes in disappointment; as of yet, there are no Martin Luthers or Zhu Rongjis visible in policy making roles. Digging out of the mess will take time but that means opportunity for long term investors to accumulate stakes in assets as the country’s SOE privatization plan is accelerated. With a bombed-out credit rating and nearly empty coffers, Hanoi has no choice but to flog assets on the cheap to pay for past sins. Watch this space.

Elsewhere in SE Asia, the release of Aung San Suu Kyi, after a multi-decade house arrest, has allowed Myanmar (Burma) to partially shed its reptilian image and be portrayed by media in a somewhat favorable light for a change. In fact, this week President Thein Sein just returned from a visit to the Blue House where he met President Lee Myung-bak in Korea. While Burma is rich in resources, it is also rich in ethnic strife and having been heavily influenced by India since time began, is unlikely to pursue a north Asian path of fast paced industrialization. Burma is a country that does not use chopsticks and is predominantly 89% Buddhist, giving the locals a more relaxed attitude towards their lot in life than the hyper-active Chinese, or hyper-driven Koreans. Even accounts from travelers hundreds of years ago paint a picture of a low stress general populace being laid-back to the point of horizontal. However, real change is in
the air and political reform is to be welcomed.

Before one gets overwhelmed with “Burmania,” it is useful to reflect that the country still boasts the lowest GDP growth rate in SE Asia: 2.9%. With 60 mn under-educated and under-employed people, GDP per capital in nominal terms is just $832, half that of Vietnam. The country also ranks last (190th out of 190 countries) in terms of health care, according to the WHO.

Burma to Sonny: I Got You Babe

What caught my eye recently was Burma’s long-secret “Blacklist” of dissidents, critics of the regime and others the military junta considered ne’er do wells has now come to light. This never before seen list is to be reduced by 2,000 names. How many are still blacklisted and not allowed entry to Burma is still unknown. Details just revealed, however, are intriguing. In addition to some Australian guy listed simply as “Brian,” former Secretary of State Madeleine Albright will be relieved to know that her name is now “off” the list, as will deceased Philippines President Corazon Aquino. The glad tidings also come late for Sonny Bono, of Sonny and Cher. After his gig with Cher ended, Sonny moved into politics and became a US congressman before removing himself from the gene pool upon impact with a tree at high speed while skiing 14 years ago. (He was, and continues to be, the only congressman to have a #1 Billboard hit).

Why take his name off the list now, is he planning a visit? Do they even have skiing in Burma? As these questions raced through my mind I realized they are just some of the imponderables that will stimulate lively discussion in homes across the world as Burma cuts loose and lets even long dead former hippies now apply for tourist visas.
The radio waves and newspapers are alive now with Presidential debate “news” as voting season kicks off in the US. I just received a “Voter’s Pamphlet” in the mail which explains which initiatives and personalities are clamoring for my vote. (Note to self: Better look at it and be a good citizen). I got the ballot because I registered to vote. This sounds simple enough, however, in the run up to the election millions of dollars have been spent by the two political parties to “get people registered.” This is historically truer for the Democratic Party, which for various reasons, enjoys a greater constituency among vagrants, loafers and those with no fixed abode. These people have often been “underrepresented in the election process.” Often a registration form already filled out with your name and address and just requiring your signature is mailed. However, I noticed things took on a worrying trend when a local woman reported getting voter registration forms for her cat, “Scampers.” There was no discrimination against dogs either, as soon after Rosie Charlston of Seattle received a completed voter-registration form as well. But Rosie was a black lab who died in 1998. Can pets vote for Obama? I don’t know and I don’t care (don’t accuse me of ignorance and apathy....). However, I’m sure dead pets aren’t eligible. Pretty sure, anyway.
A middle-aged lawyer and an attractive blonde woman are sitting next to each other on a long flight from New York to London. The blonde is trying to get a little sleep, while the lawyer is vainly attempting to impress the blonde with his wit and intelligence. The blonde ignores the lawyer until he suggests a little wager.

**Lawyer:** Would you like to play a game? I’ll first ask you a question. If you can’t answer it, using any means at your disposal, you give me $5. Then if I can’t answer one of your questions, I’ll give you $500.

**Blonde:** Sure, why not?

**Lawyer:** Great. What’s the circumference of the earth?

**Blonde:** (quietly hands him $5 from her purse) Okay, my turn. What goes up a hill with three legs, and comes down the hill with four?

The lawyer is stumped. He starts jotting down ideas, searches the net via the plane’s in-seat phone, then finally calls up a few friends, all without luck. After over an hour, he finally wakes up the blonde and hands her $500. She thanks him for the money and closes her eyes, but the lawyer can’t contain himself.

**Lawyer:** “Wait! You’ve got to tell me, what was the answer???”

Without a word, she reaches into her purse and hands him another $5, then goes back to asleep.

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**Derek Hillen, CAIA**

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