

## Going for growth in Asia: Navigating the way

### Financial Services M&A – Vietnam



#### Key figures

There were 13 deals in the financial services sector in Vietnam last year with a total value of US\$1.25bn. Banking accounted for half (US\$605m) of the activity in 2007 and insurance for US\$329m. Three-quarters of the firms surveyed say they have completed a deal in the past three years. The biggest deals last year were:

- HSBC Insurance (Asia-Pacific) Holdings bought 10% of Vietnam Insurance (Bao Viet) for US\$255m.
- Sumitomo Mitsui Banking Corporation bought 15% of Vietnam Export Import Commercial Joint-Stock Bank (Eximbank) for US\$225m.
- Morgan Stanley Private Equity Asia bought a stake in PetroVietnam Finance for \$217m.

#### Summary of 2007 financial services M&A transactions\*

Country	Number of deals	Banking	Securities and capital markets	Mutual funds and asset management	Insurance	Value (US\$m)
Japan	61	10,615	23,546	1,872	144	36,177
China	94	7,264	6,123	2,604	212	16,203
South Korea	24	10,059	784	1,095	1,069	13,006
Australia	69	1,990	1,497	2,828	725	7,040
India	100	1,486	4,345	974	101	6,905
Malaysia	38	5,373	794	70	324	6,561
Hong Kong	67	1,896	2,015	1,226	1,312	6,450
Taiwan	14	4,522	9	390	145	5,066
Thailand	16	2,239	10	35	6	2,290
Kazakhstan	1	2,175	-	-	-	2,175
<b>Vietnam</b>	<b>13</b>	<b>605</b>	<b>101</b>	<b>217</b>	<b>329</b>	<b>1,252</b>
Pakistan	4	498	504	-	-	1,002
Macau	3	619	-	-	-	619
Indonesia	9	325	93	13	-	431
Singapore	13	-	329	67	6	402
Philippines	9	27	120	14	6	167
New Zealand	7	8	59	21	8	95
Laos	3	19	-	-	-	19
Sri Lanka	1	-	2	-	-	2
<b>Total**</b>	<b>546</b>	<b>49,720</b>	<b>40,330</b>	<b>11,426</b>	<b>4,386</b>	<b>105,862</b>

Source: PricewaterhouseCoopers based on data from M&A Asia.

\* Based on deals disclosed.

\*\* Please note that the totals within the tables in this report do not always tally due to rounding and/or multiple responses.

## Future dealflow

M&A in Vietnam will be subdued compared to most other parts of Asia this year with just 25% of firms believing they will enter into a deal. But this rises to 75% over the next five years. The vast majority (88%) say joint ventures and partnerships will be key to their expansion plans.

Do you agree or disagree with the following statements?	Agree	Disagree	Don't know
Our organisation will undergo significant M&A in the next year	25%	50%	25%
Our organisation will undergo significant M&A over the next five years	75%	0%	25%
Our organisation will seek a foreign strategic investor or a partner in a significant new venture in the next five years	88%	13%	0%
Joint ventures and partnerships will be key to our expansion plans in Asia	88%	13%	0%
Our organisation will undergo a significant business disposal over the next five years	38%	25%	38%
Our organisation is already structured in the way we want	50%	50%	0%
Our organisation has a track record of success in M&A and restructuring	63%	38%	0%

## Deal targets

Financial buyers are most likely to target Vietnamese private and retail banks today. But in five years, securities firms will be the main focus, implying rapid development in the country's capital markets.

Most deals will be domestic in nature over the coming five years, but there is also an intention to conduct M&A with companies in Australia, Kong Kong, Singapore, Taiwan and North America.

## Drivers of deals

Vietnam has seen rapid economic growth since the government decided to open up the country to foreign investment. The five state-owned commercial banks are being primed for equitisation and IPOs, of which the first has already taken place and a further three are planned for later this year.<sup>1</sup>

Domestic competition is likely to drive deals over the next five years, according to 88% of financial services firms.

<sup>1</sup> Reuters, Vietinbank delays IPO until second quarter of 2008 – 13 November 2007.

### What will be the main external drivers of your organisation's M&A or restructuring activity over the next five years?

Increasing competition from domestic players (eg, non-financial service market entrants, horizontal expansion of existing financial service players, price cuts, threats to market share)	88%
Increasing customer demands (eg, desire for higher yielding investments, branded product, open-architecture products)	63%
Increasing competition from foreign players (eg, new market entrants)	50%
Access to leading-edge operating practices (eg, better governance, technologies)	50%
Slow growth in developed markets in comparison with emerging markets	13%
Regulatory liberalisation (eg, relaxation of ownership restrictions, convergence opportunities, new competitors)	13%
Increasing shareholder demands (eg, demand for transparent reporting and risk profile)	13%
Regulatory pressure to restructure or merge	0%
Economic conditions in home market	0%
Taking advantage of potential currency movements (eg, Renminbi revaluation, US dollar weakness)	0%
Higher costs (eg, staff costs, cost of capital, property costs, IT costs)	0%
None of the above; we do not expect to undergo M&A restructuring	0%

## Obstacles to M&A

Internal corporate structures are providing the biggest impediment to deals: 63% of respondents say cross-shareholdings protect owners. Half believe that managers who are not focusing on shareholder value represent an obstacle to M&A, implying that the sector is not yet mature.

### What are the main obstacles to increased M&A activity in the financial services sector in your country?

Cross-shareholdings; friendly shareholders protect managers	63%
Management goals; managers do not focus on increasing shareholder value	50%
Familiarity; limited history of M&A in our chosen market	25%
Defensiveness; owners or managers resort to defence mechanisms to halt M&A activity	25%
Regulations and regulators' attitudes	25%
Regulations requiring joint ventures	25%
Corporate culture; the potential for corporate culture clashes in merged organisations	25%
High pricing of M&A deals	13%
Capital/borrowing constraints	13%
Tax issues	0%
Stakeholder opposition; protests from employees and business partners	0%
Public sentiment; fear of the public reaction to M&A	0%
Other, please specify	0%

## Contact us

### **Stephen Gaskill**

PricewaterhouseCoopers (Vietnam)

84 8823 0796

[stephen.gaskill@vn.pwc.com](mailto:stephen.gaskill@vn.pwc.com)

### **Ian Lydall**

PricewaterhouseCoopers (Vietnam)

84 8 8230 796

[ian.lydall@vn.pwc.com](mailto:ian.lydall@vn.pwc.com)

[pwc.com](http://pwc.com)

The member firms of the PricewaterhouseCoopers network provide industry-focused assurance, tax and advisory services to build public trust and enhance value for clients and their stakeholders.

More than 146,000 people in 150 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

This PricewaterhouseCoopers Financial Services M&A suite of collateral is produced by experts in their particular field at PricewaterhouseCoopers, to review important issues affecting the financial services industry. This report has been prepared for general guidance on matters of interest only, and is not intended to provide specific advice on any matter, nor is it intended to be comprehensive. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers firms do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it. If specific advice is required, please speak with your usual contact at PricewaterhouseCoopers or those listed in this publication.

© 2008 PricewaterhouseCoopers. All rights reserved. PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.