



Vietnam

2008 deal value was lower than 2007, but economic growth remains robust. Relaxation of foreign ownership regulations will have a positive impact on M&A in 2009



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Current Environment

Despite the severity of the global financial crisis in the second half, the General Statistics Office (“GSO”) of Vietnam’s initial estimate of economic growth was still a respectable 6.2% p.a.

Inflation peaked in August at 28.3% p.a., before declining to 19.9% p.a. in December. According to the GSO, the average CPI growth for the whole of 2008 was 23.0%. The prime interest rate set by the central bank peaked at 14.0% in the summer before being cut back to 8.5% by the year end.

There was a sharp slowdown in the licensing of new FDI commitments in the last quarter of 2008. According to the year end estimates from the Ministry of Planning and Investment, total annual licensed FDI commitments reached US\$64 billion, over three times the level in 2007.

The benchmark stock exchange indicator, the VN-Index, closed at 315.6 on the last trading day of December falling from 918 points at the end of 2007. The rate of listings was slower than originally anticipated, however the longer term policy of further transfer to private ownership remains in place. The listing of Vietnamese companies on overseas stock exchanges also remains a hot topic.

As in many other countries around the world, the government of Vietnam is also working on the details of various stimulus initiatives to mitigate the worst consequences of the global financial crisis, with the government apparently looking to invest some US\$6 billion into the economy.

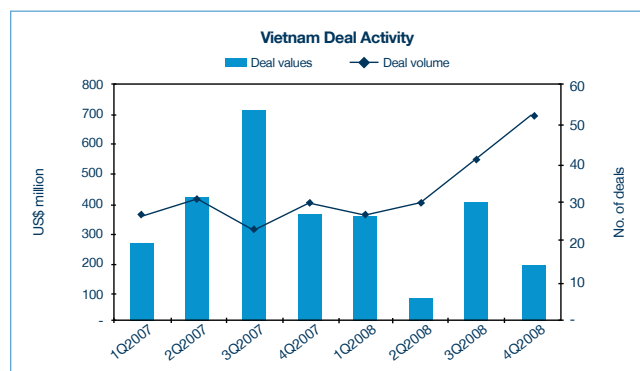
In January 2009, Vietnam concluded two full years of membership in the World Trade Organization. One of the most significant regulatory developments in connection with WTO membership obligations in 2008 was the granting of licences to wholly foreign owned financial institutions.

On 1st January 2009, legislation came into force making a number of service industries significantly more open to participation by foreign businesses. These include architecture, engineering, computer and related services, advertising, market research, construction, education, franchising, and distribution services. Government decree 139 also became effective on 1 January 2008. This decree, in principle, removed limits on foreign ownership in Vietnamese companies, except in relation to the 49% limit in public listed companies, and a 40% limit in public non-listed companies. In addition, sector specific limitations, most importantly in telecoms, financial, and other services remain.

However, while these changes provide good examples of the government following up on WTO commitments, there is still a lack of guidance available regarding the execution of other commitments.

Overall, Vietnam continues to aim to live up to the high expectations international investors have from the “next Asian tiger”. The government continues to participate in and encourage forums facilitating consultation between investors and regulators, in order to address ways in which to improve the business climate.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2008

There has been a very strong level of interest in M&A in Vietnam during 2008. Successful domestic companies have been increasingly open to deal making as they pursue expansionary strategies, while companies faring less well were more open to discussion of equity stake sales to domestic and foreign investors.

Market participants generally agreed that valuations were much more realistic during 2008 than in 2007, as the stock



market declined to an average PE ratio close to 10, and access to credit became significantly more difficult. Furthermore, there has been an increase in the level of understanding regarding the mechanics of deal making, including the importance of due diligence, and an improved appreciation for valuation techniques, although there is still plenty of scope for improvement. The government in general remains supportive of market entry by way of acquisitions. Foreign acquirers continue to be behind many of the bigger deals despite the remaining ownership restrictions for example in the financial sector and in the case of listed companies.

Strong interest in deal making unfortunately did not translate to growth in all measures of M&A activity. While the number of announced deals increased to 150 compared to 111 in 2007, the total value of these announced deals came to only US\$1.0 billion compared to US\$1.7 billion in 2007. This reflects a lack of larger deals and the slow pace of privatisation, since most of the large deals in 2007 were privatisations of SOEs.

Financial Services

In August, France's Société Générale announced the acquisition of 15% of Southeast Asia Bank (SeABank). It is understood that Société Générale may raise its holding to 20% at some point, the maximum allowable under the current regulations.

Also in August, HSBC became the first foreign bank in Vietnam authorised to hold a 20% interest in a domestic bank by increasing its stake in the Vietnam Technological and Commercial Joint Stock Bank ("Techcombank") from 14.4% to 20%.

United Overseas Bank (UOB) announced an increase in its shareholding in The Southern Commercial Joint Stock Bank of Vietnam (Southern Bank) from 10% to 15% in October 2008. The deal value was US\$15.6 million.

Ocean Bank sold a 20% stake to Vietnamese state-owned Petrovietnam Oil & Gas Corp for 400 billion Vietnamese Dong (US\$24 million) in October 2008.

Other Sectors

In July, Jardine Cycle & Carriage Limited ("JC&C") announced that it had acquired a 12% interest in Truong Hai Auto Corporation ("THACO"), a leading Vietnamese automotive company, for a cost of approximately US\$41 million and in August JC&C acquired a further 8% stake for US\$39 million.

A significant domestic deal announced in August, Petrovietnam Drilling & Well Services Joint Stock Company

("PvD") acquired the remaining 49% stake not already under its control in Petrovietnam Drilling Investment Corp, a rig owning entity.

Also in August, in a deal valued at approximately US\$9.1 million, Daikin Industries Ltd. of Japan bought Viet Kim Co., a Ho Chi Minh City-based air conditioner distributor.

Finally in the same month, in another important deal, Holcim Vietnam acquired COTEC Cement from the Vietnamese owned COTEC Group for an estimated US\$50 million.

In October, the Asian operating arm of Bunge Limited announced the acquisition of a 50% stake in the owner/operator of Phu My Port.

Also in October, Nippon Steel Corp signed a memorandum of understanding to acquire a 10% – 20% stake in POSCO-Vietnam Co. Ltd., a cold-rolled steel manufacturer and a wholly-owned unit of POSCO Co. Ltd., of Korea. A US\$530 million plant owned by POSCO-Vietnam Co. Ltd., is under construction in the south of the country and is expected to start production in September 2009.

In December, TBWA Worldwide announced the acquisition of a "significant shareholding" in Biz Solutions. TBWA is committed to bring its global integrated marketing brand "Tequila" to Vietnam by rebranding Biz Solutions as Biz Tequila.

In December, Watson Wyatt Worldwide Inc. announced that it had acquired SMART Human Resource Vietnam Company Limited ("SMART HR"), an HR consulting services firm.

Private Equity

In July, IDG Ventures Vietnam, which announced three investments in the first half of the year, has in July announced a strategic partnership with Mua Ban Joint Stock Company, the operator of the popular classified website Muaban.net. Terms were not disclosed.

In August, VinaCapital acquired an undisclosed minority stake in Phu My Bridge Corporation for US\$10.8 million.

BankInvest, a fund management company owned by 53 Danish banks, remains active via its Private Equity New Markets (PENM) fund. In October, it acquired a 20% stake, valued at US\$2.7 million, in Son Kim Fashion, an apparel manufacturer and distributor.

In December, the Mekong Enterprise Fund II invested US\$5 million in Digiworld Corporation, an electronics distributor. Also in December the Mekong Enterprise fund sold its investment in Saigon Gas to Total of France.



Outlook

Uncertainty resulting from the global financial crisis makes predictions regarding 2009 M&A activity extremely difficult. However, in our view, interest in Vietnam remains high as foreign investors continue to see the underlying long term potential of the economy in a positive light. Accordingly, fund management and commercial companies will continue to pursue and complete significant numbers of M&A deals in 2009. It appears likely, however, that most investors will move forward on deals more cautiously than they did prior to mid-2008 and that negotiations on pricing and deal terms will in general be tougher and more time consuming to conclude.

Much will also depend on the pace of privatisation of major corporations such as MobiFone and on whether

already equitised SOEs such as Vietinbank and Sabeco close deals to sell significant stakes to foreign investors. The size of these potential deals is such that they would have a considerable impact on the overall value of deal activity.

In the view of recent changes in local legislation, we would also expect increased foreign investment via M&A in those sectors now open to 100% ownership by foreigners. Subject to improved consistency in the application of this new legislation, we expect to see a number of the joint ventures established under the previously more restrictive legal environment being converted into 100% foreign owned companies. There may also be further realignment and consolidation amongst Vietnamese companies operating in those sectors most affected by the economic downturn. ■