Vietnam

Number of total deals more than double but value falls by half compared to the first half of the previous year. Activity driven by domestic deals.

Stephen Gaskill
Transactions Leader
Vietnam

Current Environment

During the first half of 2009, the Vietnamese economy has been able to maintain positive growth and in fact growth appears to be accelerating as indicated by the more positive second quarter GDP numbers. The rate of growth was 3.1% during the first quarter whilst in the second quarter it reached 4.5%. The combined first half growth of 3.9% compares to a rate of 6.5% growth achieved during the first half of 2008. Acknowledging the impact of the global financial crisis, the National Assembly has recently revised the 2009 GDP growth rate target downwards from 6.5% to 5%. Confidence in the long term potential of Vietnam remains very strong and despite the impact of the global financial crisis, the country is expected to gradually return to growth rates consistent with its pre-crisis historical figures in two to three years' time.

Inflation decreased significantly during the first half of 2009 to as low as 3.9% by June 2009 compared to a peak of 28.3% measured in August 2008; however, it is expected to start rising again in the second half of 2009 and may reach 6% to 8% by the end of the year.

Vietnam continues to experience a trade deficit despite some months of surplus during the first quarter of the year which mainly came about as a result of high levels of gold exports. This, combined with lower remittances received from overseas Vietnamese, lower rates of disbursement for FDI commitments as well as falling revenues from tourism, puts the Vietnamese dong under some pressure prompting various administrative actions from the government to fight "dollarisation" of the economy.

There has been a sharp slowdown with respect to newly licensed FDI projects following last year's record commitments. Total new investment commitments licensed in the first half of the year were down to US$4.7 billion compared with US$30.9 billion in the first half of 2008. However, the Ministry of Planning and Investment, which controls the authorisation process, remains confident that the 2009 target of US$20 billion is achievable. Actual FDI disbursements totalled US$4 billion in the first half of the year, or 18% lower than during the same period in 2008.

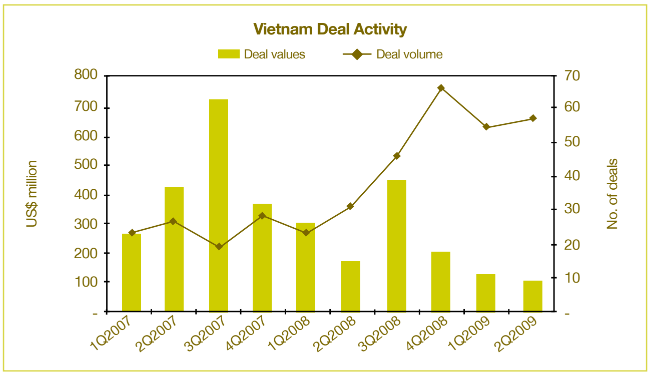
The benchmark stock exchange indicator, the VN-Index has recovered from the 2008 close of 315.6 points finishing the first half of 2009 at 448.3 points, having reached as high as 512 points on 9 June.

IPOs picked up as the market recovered including such notable listings as that of the Bank for Foreign Trade of Vietnam (Vietcombank) and Bao Viet Holdings, the largest insurer of the country and 10%-owned by HSBC Holdings Plc. Both took place at the end of June. Unfortunately, whilst the longer-term policy of further transfer of state assets to private ownership remains in place, progress on equitisation of State Owned Enterprises has been slower than hoped for by foreign investors. This is in part due to the poor performance of the stock markets during 2008 and early 2009 and it is possible that recent stock market gains may inspire a heightened urgency amongst government agencies with respect to privatisation. The listing of Vietnamese companies on overseas stock exchanges continues to be a hot topic with regular announcements of listing intentions but no actual listings to-date. Awareness regarding the importance of closing the gap between Vietnam and more developed markets with respect to disclosure, corporate governance and investor relations standards is also increasing.

The OTC market continues to be larger in value than the two official stock exchanges in Hanoi and Ho Chi Minh City combined. In a very important development, on 24 June 2009 UPCOM, a new market for OTC companies, opened in Hanoi.

Overall, Vietnam remains on an undisputed growth path driven by its favourable demographic profile, its social development, political stability and other fundamentals and there is a clear recognition by the government of the positive contribution to the ongoing growth of the economy attributable to foreign investors. Challenges to economic growth and to doing business in Vietnam that may currently exist are not dissimilar to those of other, similar emerging markets around the world.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 30 June 2009.

Interest in M&A remained at a high level during the first half of year. The Vietnamese business community as well as many of the Vietnamese government ministries and other official agencies with a stake in managing the economy have been actively investing time and energy in learning more about M&A and promoting the potential benefits of M&A as a possible solution to the difficulties arising in Vietnam brought on by the global economic slowdown. In previous years, the scheduled equitisations of State Owned Enterprises, in addition to major inbound M&A deals, was expected to drive deal activity levels in Vietnam. However, to date in 2009, deal making between domestic companies has been the most prevalent feature of the trend noted from the M&A statistics compiled.

The decline in the value of M&A deals has, however, been beneficial in terms of stimulating discussions on the difficulties of deal making in Vietnam. Domestic and foreign businesses alike continue to have many opportunities to raise their issues with the authorities via various consultative channels. Whilst conducting transactions in Vietnam continues to require much more patience and determination than in more developed markets, the level of understanding and acceptance of international deal processes continues to increase. Foreign buyers are also benefiting from the fact that valuation expectations have declined and the flexibility of sellers when negotiating deals has improved, reflecting the difficulties of accessing funds from other sources at this time. There remains a strong appreciation of the employment and other benefits foreign deal makers can bring via M&A transactions and this should bring further positive, if gradual, changes to the regulations in the near and medium term.

Notable deals announced during the first half of the year include:

In June, Unilever announced the acquisition of 33.33% of the shares in Unilever Vietnam Joint Venture Co. from its local partner Vietnam National Chemical Corporation (Vinachem). The value of the deal was not announced. Unilever and Vinachem agreed to end their joint venture partnership for the sake of being able to expand the business further. Vinachem is a state-owned enterprise with 42 subsidiaries and 12 foreign joint ventures in conjunction with companies from China, US, Japan, Netherlands, Korea and ASEAN countries in the fields of fertiliser, pesticide, detergent, rubber products, paint and petrochemicals.

In June, International Consumer Products Corp. (ICP) officially became the majority owner of Thuan Phat Foodstuff Joint Stock Co. after taking a 51% stake in the company. Terms of the acquisition were not disclosed. Established 27 years ago, Thuan Phat specialises in fish sauce, hot spices and pickles for domestic and export markets. It runs three factories and 3,000 outlets nationwide, achieving revenue of VND75 billion in 2008. Established in 2001, International Consumer Products (ICP) is one of the fastest growing privately-owned FMCG companies in Vietnam.

In March, SABMiller Asia BV (SA), a wholly-owned unit of SABMiller PLC, acquired the remaining 50% interest in SABMiller Vietnam JV Co Ltd, a beer producer and wholesaler, from its joint venture partner Vietnam Dairy Products Joint Stock Co (Vinamilk), a publicly traded manufacturer and distributor of dairy products. SABMiller stated that the acquisition allowed it to expand and grow in the Vietnamese beer market, and complemented its existing beer businesses in Asia. In turn, Vinamilk highlighted in its press release that “in the current economic environment Vinamilk would like to focus more on the dairy and healthy beverage businesses to enhance its position of strength and maximise interests of Vinamilk’s shareholders.” Terms of the acquisition were not disclosed; however it is known that assets of the target totalled US$31.8 million at the end of the fiscal year, 31 December 2008.

In March, HSBC Insurance (Asia-Pacific) Holdings Ltd, a wholly-owned unit of HSBC Insurance Holdings Ltd (which is a wholly-owned subsidiary of HSBC Holdings PLC), announced its interest in raising its stake in BaoViet, the largest insurance company in Vietnam to 18% from 10%. Subsequently, in June HSBC announced its interest in eventually increasing its stake to a 25% shareholding, the maximum stake it can hold under current Vietnamese regulations.

Private Equity

Notable private equity activity announced during the first half of 2009 include:

In June, International Finance Corp (IFC) acquired a 20% stake in Vina Payment Network Joint Stock Company (PayNet), a leading payment processor and distributor of electronic payment products in Vietnam, for an estimated VND21.429 billion (US$1.2 million). Under the agreement, IFC's investment will be used primarily to strengthen PayNet's back-office infrastructure by improving back-up and redundancy systems.

In March, VinaCapital Vietnam Opportunity Fund Limited ('VOF'), an AIM-quoted investment vehicle focused on Vietnam, announced the sale of its entire equity stake in Masan, one of Vietnam's leading food and beverage companies. Vietnam Opportunity Fund Ltd divested an undisclosed minority stake in Masan Trading Corp to an undisclosed acquirer, for an estimated VND333.3 billion (US$20 million).

Subsequently in late May, Vietnam Azalea Fund (VAF) invested US$9.4 million in Masan Food Corporation. The Vietnam Azalea Fund Limited is a US$100-million fund managed by Mekong capital and it focuses primarily on making investments in Vietnamese companies at the pre-listing stage.

Outlook

As mentioned, in June the National Assembly officially revised the Vietnam's annual GDP target growth rate to 5% from the original 6.5%. Based on the first half of this year's macroeconomic results, and according to press reports, Credit Suisse has doubled its predicted Vietnam 2009 GDP growth rate to 4% whilst HSBC has increased its forecast rate of growth from 4.5% to 4.7%. According to HSBC, Vietnam is at the beginning of the upturn in a "V-shaped recovery" and expects GDP growth to reach 6.8% in 2010. It appears that confidence in the growth potential of Vietnam remains strong.

Despite the improving macroeconomic situation, the ongoing market difficulties will create further opportunities in the coming months for foreign investors and domestic companies to enter new sectors of the economy or to make opportunistic acquisitions of distressed assets. Domestic activity is likely to continue to outpace that of foreign players due to global economic difficulties and the improving profitability of major Vietnamese corporations, which is providing them with the funds required to conduct strategic M&A. M&A is an increasingly common part of the expansion strategies for domestic players and should stimulate the volume, if not necessarily the value, of deal flows in the second half of 2009.

Private Equity

Private equity activity levels in the second half of 2009 are unlikely to see a major upturn since the larger, more established fund managers have found it difficult to raise new funds over the past 12 to 18 months in view of the current economic climate both globally and in Vietnam. Previously raised funds have largely been invested and the focus is likely to remain on managing the investments made between 2006 and 2008, and on making profitable exits from those investments. However, larger numbers of exits by private equity houses will stimulate M&A activity and will provide opportunities for strategic investors. In addition, certain funds which were raised more recently still have capacity for new private equity deals and we would expect some deals to occur in the US$3 to US$10 million range with a focus on domestic companies.

Retail

Although Vietnam slipped down the rankings for most attractive retail markets in the 2009 AT Kearney Global Retail Development IndexTM, interest in the sector remains high among both funds and strategic investors. The sector continues to have huge potential for further growth due to the increasing spending power of the population and the limited number of major chains of stores and other organised retail formats in existence at present.

Fast Moving Consumer Goods

As with retail, this is a sector which is benefiting from rapid growth rates as the purchasing power of the population increases and people become more brand conscious. A number of the most significant deals in the first half of the year were in this sector and demonstrate the confidence of both foreign investors and local brand owners in the ongoing market opportunities in Vietnam. We therefore expect to see more significant activity in this sector in the near term.

Financial Services

According to the fourth annual Asia Financial Services M&A Survey conducted for PwC by The Economist Intelligence Unit (EIU) in January and February of this year, based on the answers of executives from 215 institutions across the region, 63% of the Vietnam-based respondents indicated that they are likely to pursue M&A activity in the country within a year. 83% of the Vietnam-based respondents cited increasing domestic competition as the key driver behind their M&A intent. The summary of the regional results indicated that 14% of all respondents were considering a transaction in Vietnam in 2009, indicating the second highest expectations of deal activity in the region after Indonesia (18%). Actual deal activity was far below these indications in the first half of 2009, whilst the expected consolidation of local banks has not yet been materialised despite the mounting pressure arising from increased capitalisation requirements.

Pharmaceuticals

We have seen increasing interest from foreign companies looking to enter the market, or expand their operations, in Vietnam both organically as well as via M&A. Vietnam is currently a net importer of pharmaceutical products, and foreign companies able to contribute to lowering the trade deficit are likely to receive a positive reception. We believe that M&A activities targeting Vietnamese companies that facilitate the local manufacturing and distribution of generic products are particularly likely to succeed. It is worth noting that the head of the Drug Administration of Vietnam has said that foreign investment in the sector should be highly encouraged in order to meet local demand.

Entertainment and Media

According to the 10th annual PwC Global Entertainment & Media (E&M) Outlook (which covers 2009 to 2013), in Vietnam the value of the E&M market approximately tripled in the five-year period from 2004 to 2009. During the forecast period, the overall E&M compound annual growth rate (CAGR) of Vietnam is projected to be the fastest growth rate in the world at 16.7%. We expect more deals in this sector including market entry deals by foreigners, private equity funds buying stakes in upcoming Vietnamese enterprises as well as deals driven by local companies consolidating their positions in their respective fields.

In addition to the sectors highlighted above, we expect deals to occur in many other sectors which are growing rapidly and which are either particularly attractive to foreign investors or which may undergo domestic consolidation or reorganisation. Telecommunications, real estate and the energy sector are good examples. As is always the case in Vietnam, further changes in the regulatory environment, be they formal or procedural, and progress in the equitisation process may also have major impact on the shape, volume and value of future deal activity. ■