

Vietnam M&A activity review – First Half 2009

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

Ho Chi Minh City, 21 July 2009. Every six months, PricewaterhouseCoopers issues a detailed review of Mergers and Acquisitions (M&A) activity in Vietnam. The review considers the wider environment affecting the making of deals in the country, considers the larger and more notable deals individually and provides an outlook for the forthcoming months.

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 numbers. Significant policy easing from the government introduced from the end of last year onwards has been a major contributing factor. In addition to policy measures, fiscal stimulus measures worth approximately USD 8 billion, or close to 10% of the 2008 nominal GDP, have been introduced.

The rate of growth was 3.1% during the first quarter whilst in the second 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. The slower rate of growth has caused difficulties for the government, companies and individuals alike but initial fears prevalent at the beginning of the year with respect to significant numbers of factory closures and a leap in the number of unemployed have turned out to be overly pessimistic. 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%. Whilst the country may not reach this target in light of the first half economic figures a number of independent economists have recently made upward revisions to their growth forecasts with a consensus rate appearing to be around 4%. 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 - 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 6-8% by the end of the year. The prime interest rate set by the State Bank of Vietnam peaked at 14.0% in the summer of 2008 before

being cut back to 8.5% by the year end and to 7% in 2009 as part of the government's cutting policies.

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, put the Vietnamese dong under some pressure prompting various administrative action from the government to fight "dollarisation" of the economy. The USD selling reference rate of the State Bank of Vietnam was 17,801 VND on 30th of June compared to 17,483 at the end of last year.

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 USD 4.7 billion compared with USD 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 USD 20 billion is achievable. This is based on official estimations regarding projects currently under evaluation or in the authorisation pipeline, including a number of multibillion dollar investments in the real estate, infrastructure and oil and gas sectors. USD 20 billion would compare badly to the USD 64 billion record in 2008 but would still equal the investment commitments received in 2007 and would be almost double the level in 2006. Actual FDI disbursements totalled US\$4 billion in the first half of the year, or 18% lower than during the same period last year. The disbursement target for the whole year is now USD 8 billion, down from the previous target of US\$11 billion reflecting the difficulties being faced by many investors in relation to mobilising funds in order to fulfil commitments made over the past 2 years.

The benchmark stock exchange indicator, the VN-Index has recovered from the 2008 close of 315.6 finishing the first half of 2009 at 448.3, having reached as high as 512 points on 9th 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 percent owned by HSBC Holdings Plc, both of which took place at the end of June. Further listings include Vietnam Bank for Industry & Trade, known as VietinBank, listed on July 16. Unfortunately, however, whilst the longer term policy of further transfer of state assets to private ownership remains in place, progress on equitisation of State Owned Enterprises have 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 regarding 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 ones as yet. 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 24th June 2009

UPCOM, a new market for OTC companies, opened in Hanoi. There were 10 companies listed on the first day, half of which were securities firms. Viet Dragon Securities Co is the most-highly capitalised share on the new market, with total equity of VND350 billion (US\$19.7 million), whilst seafood producer Cafico Viet Nam is the smallest, with an equity value of VND16.29 billion (US\$915,168)

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. Accordingly HSBC, Standard Chartered, ANZ, Shinhan bank (Korea) and Hong Leong Bank (Malaysia) were granted permission to incorporate wholly foreign-owned banks in Vietnam and began or will soon begin to operate under those entities in 2009.

In addition, on 1st January 2009, legislation came into force making a number of service industries significantly more open to participation by foreign businesses including 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 which, in principle, removed limits on foreign ownership in Vietnamese companies, except in relation to the 49% cap applicable to 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. While these changes provide positive examples of the government following up on WTO commitments, in line with expectations of the business community, taking advantage of these relaxations is not always straightforward in practice due to the existence of various procedural difficulties. In this context, it is very important to mention that the government appears very much aware of the need to simplify conditions for doing business. Lead directly by Prime Minister Nguyen Tan Dung, an Administrative Procedure Reform Special Task Force has been tasked with driving a very significant reform effort known as Project 30. The project engages 22 Ministries and 64 Provinces, other Vietnamese organisations as well as international advisors to first take an inventory of and then to review various administrative procedures which impact on the business community. The group is then required to develop concrete recommendations regarding simplification or elimination of unnecessary and unreasonable administrative procedures, forms, requirements or conditions for implementing administrative procedures with the review scheduled for completion some time in 2010.

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

Interest in mergers and acquisitions 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 in promoting the potential benefits of M&A as a possible solution to the difficulties arising in Vietnam as a result of 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.

Deal Activity Summary

	1H 2009	1H 2008	Change
Deal Value (USD million)			
Domestic	130	110	18%
Inbound	102	361	-72%
Total	232	471	-51%
Number of deals			
Domestic	72	20	260%
Inbound	40	34	18%
Total	112	54	107%

Source: Thomson Reuters, PricewaterhouseCoopers research

The above statistics show a significant fall in the value, if not the volume, of foreign inbound M&A deals. However, with the volume of deals increasing compared to the prior year this clearly does not indicate a lack of interest in the Vietnam market. The value numbers have been impacted by a significant reduction in the numbers of deals in the Financial Services sector, the first half of 2008 seeing a number of major deals closed including Swiss Re's purchase of shares in Vinare, Maybank's acquisition of a stake in ABBank and BNP Paribas' purchase of a stake in OCB all of which were relatively high value transactions which occurred at a time when valuations in general were also high. The Vietnam stock market reached a low point of around 230 points in February 2009 and valuations have trended downwards in conjunction with the index leading to a reduction in the size of individual deals in terms of value compared to previous periods.

The numbers also appear to reflect the fact that many foreign companies took some time to re-evaluate their expansion strategies both in their home markets and also with respect to developing economies such as Vietnam as a result of the global economic problems, problems which have continued to exert a huge influence over M&A trends in the past 6 months. The fundamentals that have been making Vietnam an increasingly attractive investment destination have not changed significantly however and we therefore expect deal values to rebound and volumes to continue to grow once the developed economies return to growth.

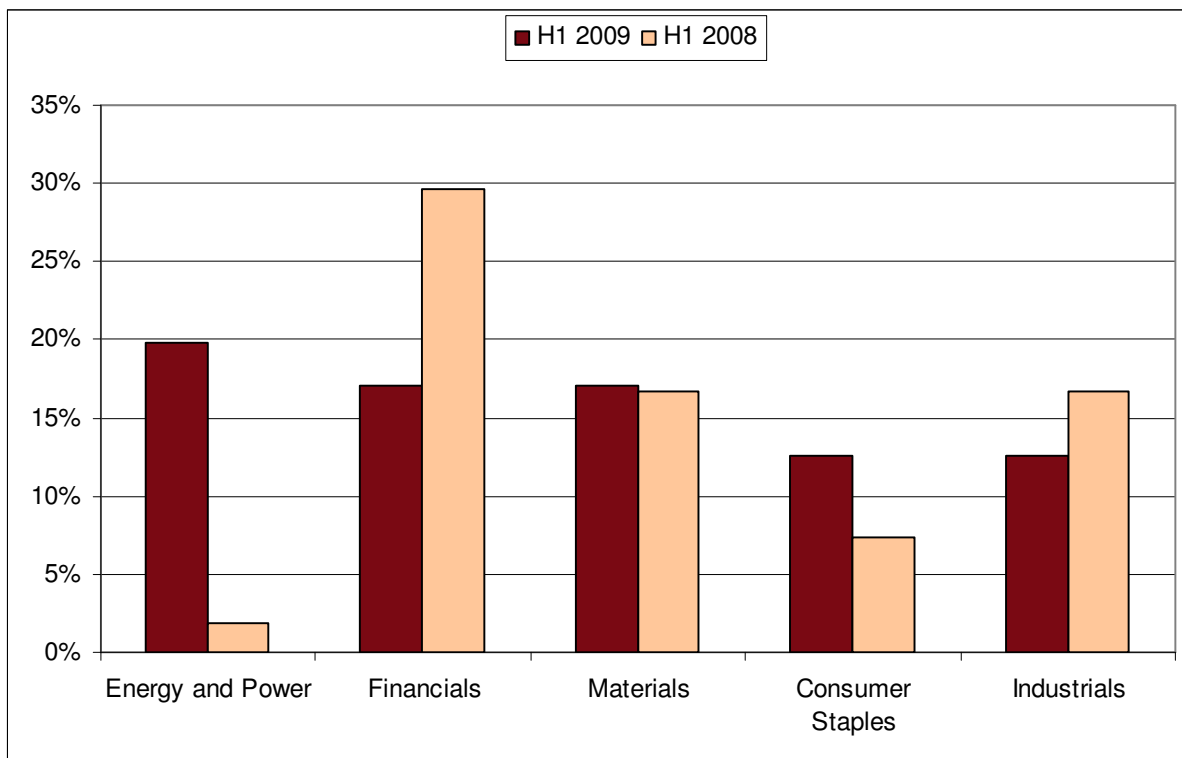
The decline in the value of M&A deals has, however, been beneficial in terms of stimulating discussion on the difficulties of deal making in Vietnam. Domestic and foreign businesses alike continue to have many opportunities to raise their issues with the authorities via various consultative channels. 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. Bureaucratic procedures have gradually been clarified also with positive moves seen in relation to completion and registration by the authorities of M&A deals involving the purchase of more than 30% of the equity of private Vietnamese companies which previously had been blocked despite being allowed under WTO commitments. There remains a strong appreciation of the employment and other benefits foreign dealmakers can bring via M&A transactions and this should bring further positive, if gradual, changes to the regulations in the near and medium term.

Announced M&A Deals – Target Region / Nation						
	1H2009	1H2008		1H2009	1H2008	
	(US\$ Millions)		% Change	Number of deals		% Change
Worldwide	914,037	1,573,325	-40%	17,389	20,342	-15%
USA	289,363	569,065	-49%	3,506	4,949	-29%
China	38,288	62,329	-39%	1,104	1,392	-21%
South East Asia	18,559	49,944	-63%	972	1,006	-3%
Vietnam	232	471	-51%	112	54	107%

Source: Thomson Reuters, PricewaterhouseCoopers research

Comparing the M&A statistics in Vietnam to other regions, it is worth noting that while the fall in deal Values is more significant than in China, Vietnam still fared better than South East Asia as a whole. The doubling of the deal numbers is significant, even if we suspect that one reason behind it may be a higher willingness to make deal announcements by Vietnamese companies in 2009, whilst better data capture of smaller deals by specialist M&A statistics providers may be another factor.

Percentage of announced deals by industry sector – M&A targets in Vietnam



Source: Thomson Reuters, PricewaterhouseCoopers research

During the first half of 2009, the energy and power sector accounted to a fifth of all announced M&A deals targeting Vietnamese companies up from only 2% in the first half of 2008. In the meantime the financial sector accounted for only 17% of all deals compared to 30% in the prior period.

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

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. Unilever Vietnam Joint Venture Co. has accordingly become 100% foreign-owned and been renamed Unilever Vietnam International Co. Ltd., or Unilever Vietnam. Since its entry to Vietnam in 1995, Unilever has been one of the leading and most successful foreign investors in the country in the FMCG sector while Vinachem is a state-owned enterprise with 42 subsidiaries and 12 foreign joint ventures in conjunction with companies from China, USA, Japan, Netherlands, Korea, ASEAN countries in the fields of fertilizer, 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 this company. Terms of the acquisition were not disclosed. Established 27 years ago, Thuan Phat specializes in fish sauce, hot spices and pickles for domestic and export markets running three factories and has 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 Fast Moving Consumer Goods ('FMCG') companies in Vietnam, with well-established brands such as Vegy, OCleen, X-Men, Dr.Men, X-men for boss, Hatrick, Teen-X, L'Ovité, Q-girl and X-series whilst also bottling and distributing Orangina in Vietnam. This deal helps ICP to expand its operations in the food and beverage sector. According to ICP's press release, Thuan Phat will be able to leverage off ICP's large distribution system in order to expand its market share. In addition, ICP will support Thuan Phat to develop a modern management system, improve professional marketing and selling skills, and reinforce highly-qualified human resources.

In June, Jardine Cycle & Carriage Ltd (JC&C) raised its equity stake in Truong Hai Auto Corp (THACO) to 24.9% from 20.5% for a consideration of VND 262.5 bil (approx USD14.7 mil) in cash. Last year, JC&C acquired a 12% interest in THACO in July followed by an additional 8% interest in August for approximately US\$ 80 million in total. THACO was established in Vietnam in 1997 and incorporated as a joint stock company in 2007 and its founder, Mr. Tran Ba Duong, is the company's major shareholder. THACO's principal activities include the manufacture, assembly, distribution, retail, repair and maintenance of commercial and passenger vehicles in Vietnam under the Kia, Foton, King Long, Hyundai and THACO brands. The company operates through a network of showrooms and dealers throughout the country.

In June, PetroVietnam Insurance JSC, a majority-owned unit of Vietnam state-owned enterprise Vietnam Oil & Gas Corp (PetroVietnam), agreed to acquire a 10% stake in Petrovietnam Gas City Investment & Development JSC, a manufacturer of gas equipment, from PetroVietnam Finance JSC. Terms of the deal were not announced.

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 Vietnamese beer market and also to complement its existing beer businesses in the Asia region. 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 maximize 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 fiscal year end, 31st December 2008.

In February, Construction giant Vinaconex Group completed the sale of 35 million of its shares to the state-run Vietnam Military Telecommunications Corp. (Viettel). The Vinaconex Group is one of the leading corporations in Vietnam's construction industry, operating in the fields of construction, investment consulting, design, master planning, import and export of

equipment and materials for the construction sector and related industries. The sale helped Vinaconex raise VND701.9 billion (US\$40.1 million) and reduced the overall stake in the company held by the State Capital Investment Corporation (SCIC) from 63.36% to 51.35%. After this deal, Viettel held an 18.9% stake in Vinaconex and stated that it planned to buy an additional 31% stake in the group; however according to press reports, this plan was cancelled in early July as no reply to Viettel's proposal was received from the SCIC.

In May, Pha Lai Thermal JSC agreed to acquire a 15% stake in Quang Ninh Thermal Power JSC, a power generation company, for VND 675 bil (nearly USD 40 mil). Pha Lai Thermal Power Joint Stock Company, a majority-owned unit of Vietnam state-owned enterprise Electricity of Vietnam (EVN), mainly operates, maintains, and manages thermal power generating plants in Hai Duong Province.

In May, Pan Pacific Petroleum (Vietnam) Pty., Ltd. (Pan Pacific), a Vietnam-based oil exploration company, agreed to acquire a 15% interest from Premier Oil Vietnam South B.V.I. (Premier Oil) in oil exploration block 07/03 in the highly prospective Nam Con Son Basin. Upon completion of the transaction, Premier Oil will retain a 30% interest in the block 07/03 production sharing contract, with Pan Pacific holding 15% and the remaining 55% interest in block 07/03 will be held by Vietnam American Exploration Company, LLC. (40%) and PearlOil (Ophiolite) Limited (15%).

In February, CapitaLand Ltd, through its wholly-owned subsidiary CVH Cayman 1 Ltd, raised its equity interest to 70% from 10% in CapitaLand-Hoang Thanh Co Ltd by acquiring a 60% stake from Hoang Thanh Co Ltd for a consideration of VND 551.017 bil (\$US 32.5mil) in cash. CapitaLand-Hoang Thanh Co Ltd, which is a real estate investment and development joint venture between Hoang Thanh and Singapore's CapitaLand Group, received an investment certificate in February for its \$120 million "Satin Residence" high-class apartment project in the Mo Lao New Urban Area of Hanoi located in Ha Dong District, in what was formerly Ha Tay province before the enlargement of the capital.

In June, INB Investment JSC acquired a 20.19% stake, or 2.22 mil ordinary shares, in 620 Chau Thoi Concrete Corp, a Ho Chi Minh City based manufacturer of concrete and construction materials in a privately negotiated transaction. ACB Capital Management Co Ltd, a unit of Asia Commercial Bank, acquired a further 16.58% stake, or 1.824 mil ordinary shares, in 620 Chau Thoi Concrete Corp, in another privately negotiated transaction during 2009.

In a privately negotiated transaction in May, Eland Asia Holdings Pte Ltd (Eland) of Singapore, a unit of EL International Ltd of South Korea, acquired a 30% stake, or 10.365 mil new ordinary shares, in Thanh Cong Textile Garment Investment Trading JSC (Thanh Cong), a Ho Chi Minh City-based manufacturer of textile products, for VND 10, 000 (USD 0.57) in cash per share, or a total value of VND 103.65 bil (USD 5.9 mil) Eland also announced its intention at some point to raise its interest further to 40.36% for an additional consideration of USD 3.4 million.

In March, HSBC Insurance (Asia-Pacific) Holdings Ltd, a wholly-owned unit of HSBC Holdings PLC's wholly-owned HSBC Insurance Holdings Ltd subsidiary, 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 eventually in increasing its stake to a 25% shareholding, the maximum stake it can hold under current Vietnamese regulations. As mentioned earlier, the shares of BaoViet have been trading in the Ho Chi Minh City Stock Exchange since June 2009.

In March, MOTUL Lubricants Group, a French producer and distributor of lubricants, acquired the remaining 70% of the shares that it did not already own of Vietnam Lubricants and Chemicals Joint Stock Corporation (Vilube), a producer of lubricants under the Vilube brand. MOTUL Lubricants had acquired a 30% stake in Vilube in December 2006. The local corporation, headquartered in Ho Chi Minh City and with branches in Hanoi, Danang and Can Tho, has an annual processing capacity of over 25,000 tonnes of lubricating oil. MOTUL Group indicated that it would invest in upgrading production technologies at the existing Vilube plant at Hiep Phuoc IP in HCMC with a view to making it Motul's main production base for supplying the Asia Pacific region.

In March, the ASX listed Australian Worldwide Exploration Limited ("AWE") announced that it had entered into an agreement to earn a 23.33% interest in Block 06/94 in the Nam Con Son Basin in offshore Vietnam. Under the terms of the agreement, AWE will earn a 23.33% interest from Serica Energy Corporation ("Serica"), a wholly owned subsidiary of the AIM and Canada listed company Serica Energy Plc. The agreement is subject to the waiver of a pre-emptive right held by PetroVietnam, the Vietnamese State oil and gas company, and to the approval of the government of Vietnam. Under the farm-in agreement, AWE will fund the upcoming drilling activity in the block on behalf of Serica.

In February, an investor group, comprising Kinh Do Investment Corp, a wholly-owned unit of Kinh Do Corp, Uni-President Vietnam Ltd, a wholly-owned unit of Uni-President Enterprises Corp from Taiwan, and Tribeco Binh Duong JSC, announced the acquisition of a 72.6% interest, or 20 mil new ordinary shares, in Saigon Food & Beverage Joint Stock Co, a canned drinks producer and wholesaler, for VND 7,520 (USD 0.444) in cash per share, or a total consideration of VND 150.4 bil (USD 8.874 mil).

In January, Crown Packaging Investment Pte Ltd, a unit of Crown Holdings Inc, agreed to acquire a 70% interest in Interfood Packaging Ltd, a packaging products manufacturer and a subsidiary of Interfood Shareholding Co (Interfood), a HCMC listed public company for VND 78.333 bil (USD 4.7 mil).

In March, Minh Phu Seafood Corp divested its 35.56% stake in Vungtau Petro JSC, an oil and gas transportation services provider, to an undisclosed acquirer, for VND67 bil (US\$ 3.8 mil)

In March, De Heus International, a wholly-owned unit of De Heus Voeders BV, acquired two animal feed companies - Indochine Feeds and PG Richfarm. The activities of the two acquired entities will be integrated and will manufacture under the new name of De Heus Vietnam LLC. Indochine Feeds is located 60 kilometres north of Ho Chi Minh City while PG

Richfarm is located in Hai Phong. De Heus Vietnam LLC will focus on compound feed and premixes for pigs, broilers and ducks.

In February, Global Investment House (Global) announced that the Global Asia Real Estate Fund, an Asia focused real estate investment fund managed by Global, had acquired a 17% stake in RC Real Estate Development and Finance Corporation (Refico) in Vietnam. Global Asia Real Estate Fund was launched in 2006 focusing on real estate investments in China, India and now Vietnam. Refico is a Vietnamese property development company established in 2003 based in Ho Chi Minh City.

In April, Phu Sy Co Ltd acquired a 56.4% interest in Southeast Asia Securities Corporation, a securities brokerage firm.

In January, Refrigeration Electrical Engineering Corp (REE) raised its interest to 61.6% from 35.6% in Bao Tin Fund Management JSC, an investment management company. REE, which was founded in 1977 and is based in Ho Chi Minh City is involved in the manufacture and distribution of air-conditioners, home appliances, electrical panels and industrial mechanical products. In addition, REE is also involved in investment, real estate development and engineering services for industrial, commercial and civil projects.

In March, EVN Finance JSC acquired a 21% stake in Thac Ba Hydropower JSC, an electricity generating company and a 51% owned subsidiary of Vietnamese state-owned enterprise Electricity of Vietnam (EVN), from EVN, in a privately negotiated transaction.

In April, an investor group, comprising Vietnamese state-owned enterprise Vietnam National Coal & Mineral Industries Group (VINACOMIN) and Vietnam Rubber Industries Group, acquired a 39.99% stake in Saigon-Hanoi Commercial Joint Stock Bank.

In February, Edge Marketing Ltd of Vietnam acquired New Media Co Ltd, a digital marketing services provider, from Digital Marketing Solutions Group. Edge Marketing, with offices in Ho Chi Minh, Hanoi and Singapore, was founded in 2004 and is the largest independent marketing agency operating in Vietnam. The Group specializes in creating integrated Customer Relationship Marketing (CRM) programs which utilize a variety of media channels, both on and offline. New Media, founded in 2005, is the leading online marketing, creative, media, and search services agency in Thailand and Vietnam and handles a number of prominent local & international brands. The transaction was driven by the expected growth in online advertisements. Financial terms were not disclosed.

Private Equity

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

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 VND 21.429 bil (USD1.2 mil). Under the

agreement, IFC's investment will be used primarily to strengthen PayNet's back-office infrastructure by improving back-up and redundancy systems. It also will be used to expand its retail payment network. IFC and PayNet also plan to enter into an advisory services agreement under which IFC will provide strategic and technical implementation advice to PayNet.

In April, Private Equity New Markets, a fund run by BankInvest of Denmark, acquired a 16.6% stake in Cholimex Food JSC, a Ho Chi Minh City-based producer of processed food.

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. Masan, established in 2003, holds a 50 percent market share in some of Vietnam's most competitive food products subsectors – namely fish, chilli and soy sauces. In the premium market, Masan holds a 70 percent market share via its Chinsu brand. Vietnam Opportunity Fund Ltd divested an undisclosed minority stake in Masan Trading Corp to an undisclosed acquirer, for an estimated VND 333.333 bil (US\$20 mil).

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

Outlook

As mentioned earlier, the National Assembly in June officially revised the Vietnam's annual GDP target growth rate to 5% from the original 6.5% rate. In line of the first half 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" for Vietnam and expects GDP growth to reach 6.8% in 2010. It can be concluded that confidence in the growth potential of Vietnam remains strong therefore.

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 in view of global economic difficulties and the improving profitability of major Vietnamese corporations, which is providing them with the funds to conduct strategic M&A. M&A is an increasingly accepted practice in support of expansion strategies for domestic players and should stimulate the volume, if not necessarily the value, of deal flows in the next 6 months.

Private Equity

Private Equity (PE) fund activity levels in the next 6 months 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 economic problems 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 to 2008 and on making profitable exits from those investments, especially with regard to investments made out of funds which are more mature. However, larger numbers of exits by PE houses will stimulate M&A activity in general and will provide opportunities for strategic investors. In addition, certain funds which were raised more recently still have capacity for new PE deals and we would therefore expect some deals to occur in the US\$3 - 10m range and targeting domestically focussed companies.

Retail

Although Vietnam slipped down the rankings for most attractive retail markets in the 2009 AT Kearney Global Retail Development Index™, interest in the sector remains high amongst 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 organized retail formats in existence at present.

FMCG

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

Financial Services

According to the fourth annual Asia Financial Services M&A Survey conducted for PricewaterhouseCoopers 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. Only companies in Taiwan (70%) and China (68%) indicated even higher level of interest in deals in their local markets. 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 to conduct a transaction in Vietnam in 2009, indicating the second highest expectations of deal activity in the country in the region following 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 experienced despite the mounting pressure arising from increased capitalisation requirements.

Pharmaceuticals

We have seen increasing interest from foreign companies in the sector looking to enter the market or expand their operations in Vietnam organically as well as via the M&A path. 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 may 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 PricewaterhouseCoopers Global Entertainment & Media (E&M) Outlook now covering the years 2009-2013, in Vietnam, the value of the entertainment and media market approximately tripled in 5 years from 2004 to 2009. During the forecast period, the overall E&M compound annual growth rate (CAGR) of Vietnam is projected to be the highest one in the world at 16.7%. The Internet access market is expected to grow by 20.9% (CAGR 2009-2013), Advertising by 10.9%, and Consumer/end-user spending (excluding Internet access) by 16.1%. 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 of course 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/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.

Historical data on M&A Activity – Vietnamese Targets

Data available to us indicate the following deal activity targeting enterprises in Vietnam over the past six years:

Year	Number of deals	Total Value of deals (US\$ million)
2008	166	1,117
2007	108	1,719
2006	38	299
2005	22	61
2004	23	34
2003	41	118

Source: Thomson Reuters, PricewaterhouseCoopers research

Important notes regarding M&A statistics

There are a number of global, regional and local companies providing M&A statistics. These include Thomson Reuters, Bloomberg, Mergermarket (global) and M&A Asia (regional). PwC believes that these M&A statistics providers each cover deal activities differently and therefore their statistics often vary from each other. The providers also differ in their ability to provide complete information. We believe that the reporting of deal activity in emerging markets such as Vietnam is rapidly improving, but has yet to reach the level seen in mature markets.

In addition, it is very important to note that many M&A deals that are announced are privately negotiated and therefore the value of the deal will not be publicly disclosed or disclosed with significant delay.

PwC in Asia Pacific normally refers to M&A statistics provided by Thomson Reuters. However, for the above reasons, we believe that there is no single accurate source for M&A statistics. M&A professionals and other parties interested in deal activities should therefore observe market activity from multiple sources.

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About PricewaterhouseCoopers

PricewaterhouseCoopers (www.pwc.com) provides industry-focused assurance, tax, legal and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 155,000 people in 153 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

PricewaterhouseCoopers established offices in the Vietnamese cities of Hanoi and Ho Chi Minh City in 1994. Our team of approximately 400 local and expatriate staff have a thorough understanding of the transitional local economy in which they work and a wide knowledge of policies and procedures covering investment, tax and accounting and consulting throughout Vietnam.

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