



South and Southeast Asia Vietnam

Slow start but a strong finish for the year. Overall M&A values and volumes appear to have returned to a path of growth in the fourth quarter of 2009, giving grounds for optimism for 2010.



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Current Environment

The overall annual rate of GDP growth in 2009 reached 5.3%, compared to 6.2% in 2008. The inflation rate for the year was 6.9%, the lowest rate in the last six years. Inflation began to accelerate again towards the end of the year and consensus amongst analysts is that the annual inflation rate in 2010 will rise to between 8% to 10%.

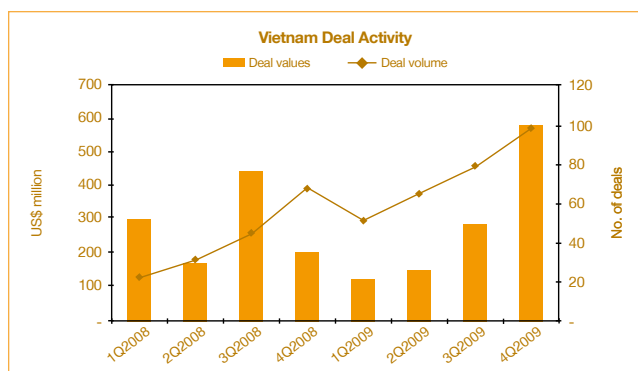
Exports and imports declined by 9.7% and 14.7% respectively, compared to 2008. The ongoing trade deficit and other factors put the Vietnamese dong under some pressure during the year. In November, the government responded by raising the base rate from 7% to 8%, whilst the Vietnamese dong trading band was narrowed to 3% from 5% and the dong midpoint rate weakened by 5.4%. The US dollar selling reference rate of the State Bank of Vietnam was VND18,479 on 31 December 2009 compared to VND17,489 at the end of the prior year.

The total value of foreign direct investment (FDI) commitments licensed in 2009 reached US\$21.5 billion. Whilst this compares very poorly to the record levels of 2008, it still equals the investment commitments received in 2007 and is almost double the level of FDI commitments in 2006.

The benchmark stock exchange indicator, the VN-Index increased from 448.3 points at the end of June to 494 points at the end of December.

IPO activity, which had already picked up in the first half of the year, continued to show growth in the second half of 2009. Despite some high profile listings on both the Hanoi and Ho Chi Minh official stock exchanges, the OTC market continues to be the dominant market in Vietnam.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2009.

The strong pick up in deal volumes in the second half of 2009 was driven by domestic deals, although the average deal size for domestic M&A was very low. Significantly, fourth quarter deal activity saw higher numbers of inbound deals and much higher average deal sizes indicating growing confidence amongst international companies and especially from Asian companies.

Another notable trend is the increase in deals conducted by private equity firms, including a small number of larger deals that appear to reflect more favourable valuation multiples and the ongoing need amongst some of the larger private Vietnamese companies for capital expansion.

Notable deals announced during the year include:

In October, HSBC Insurance (Asia Pacific) Holdings Limited (HSBC) signed an agreement to increase its stake in Bao Viet Holdings, Vietnam's leading insurance and financial services group, to 18% from the current level of 10% for a consideration of VND1.88 trillion (approximately US\$105.3 million).

In October, Taipei Fubon Commercial Bank Co. Ltd., a Taiwan-based provider of commercial banking services and a subsidiary of Fubon Financial Holding Company Ltd., a listed Taiwan-based financial services company, acquired the Vietnamese branches of Chinfon Commercial Bank Co. Ltd., for a consideration of NT\$2.53 billion (US\$78.1 million).

In November, a leading Japanese food and beverage company, House Foods Corporation, signed an agreement to make an investment of approximately



US\$20 million in Masan Group Corporation. Masan Group owns one of Vietnam's largest food and beverage companies, Masan Food Corporation.

In December, Ha Tien 2 Cement Joint Stock Company agreed to merge with Ha Tien 1 Cement Joint Stock Company. Both companies are majority-owned by Vietnam National Cement Corporation, a Vietnam-based state-owned cement producing company. The deal value is estimated at US\$133 million.

In July, Vincom JSC, a listed Vietnam-based real estate company, agreed to acquire a 44.25% stake in Hoang Gia Real Estate Investment and Development JSC (Hoang Gia), another Vietnam-based real estate company, for VND885 billion (US\$50.5 million). In a related transaction, Vinpearl Land Tourism JSC, a listed Vietnam-based company involved in real estate development and tourism, acquired a 28.75% stake in Hoang Gia for VND575 billion (US\$37.6 million).

In July, POSCO, a listed South Korea based steel manufacturer, agreed to acquire a 90% stake in Asia Stainless Corporation, a Vietnam-based manufacturer of stainless steel, for an estimated consideration of US\$50 million.

In December, Jardine Cycle & Carriage Ltd. of Singapore raised its stake in Truong Hai Automobile Co. Ltd. (THACO), a Ho Chi Minh-based manufacturer, wholesaler and retailer of motor vehicles, from 23.4% to 29.2% for an estimated VND537 billion (US\$29 million).

In July, ANZ announced the purchase of several Asian businesses belonging to the Royal Bank of Scotland, including its institutional business in Vietnam.

Other deals or intended deals announced in the second half of the year involved well-known international companies like Google, CapGemini, Gazprom, Ogilvy & Mather, Carlsberg Sapporo holdings, BNP and Total SA.

Private Equity

Notable private equity deals announced during the second half of 2009 include:

In October, TPG Capital LP (TPG) of the US and BankInvest Group (BankInvest) of Denmark announced investments in Masan Group Corporation for an estimated US\$35 million and US\$22 million respectively. Later in December 2009, BankInvest increased its ownership of Masan Group from 10.15% to 11.48% for an approximate consideration of US\$12 million.

In September, VinaCapital's Vietnam Opportunity Fund Limited (VOF) announced the sale of its entire equity stake in the Hilton Hanoi Opera Hotel. The exit value represented an IRR of 23% over the three-year period since the stake was acquired.

In August, Mekong Capital announced the sale of Mekong Enterprise Fund's investment in Duc Thanh Wood Processing Joint Stock Company, a Ho Chi Minh-based manufacturer and wholesaler of wood products, to Vietnam Rubber Corporation. Concurrently, Mekong Capital announced the completion of Mekong Enterprise Fund's sale of its holding in Tan Dai Hung Plastic Joint Stock Company, a leading manufacturer of polypropylene and polyethylene woven bags for packaging rice, fertiliser, animal food and other agricultural products.

Outbound activity

During the year there were more indications that the larger private companies as well as certain State Owned Enterprises are looking into regional expansion projects, including acquisitions. Information regarding executed deals is currently limited but it is worthwhile paying attention to developments in this area since it is likely to be a developing trend over the coming years.

Outlook

There is a strong feeling in the Vietnamese business circles, within the government and amongst international economic analysts that the worst of the challenges brought about by the global economic crisis and local economic overheating is behind the country. However, some concerns persist in relation to the stability of the dong due to balance of payments deficit issues and in relation to inflation. Independent analysts expect that GDP growth in 2010 will reach approximately 6%. Fundamental factors facilitating macroeconomic growth have not been unduly affected by the current crisis.

We expect continued growth in deal activity in all categories with deals between domestic companies continuing to accelerate as growing Vietnamese corporations look for M&A targets in which to invest their cash surpluses and to facilitate further growth. Inbound strategic acquisitions as well as private equity deals are also expected to grow in 2010. In addition, it is particularly important to highlight that the government specifically indicated in the first week of January its intention to resume the equitisation process during 2010, which may lead to some larger deals occurring during the current year.



Another important government initiative that may have considerable impact on the deal environment in 2010 is the expected consolidation of various State Owned Enterprises due to the need to rationalise operations and improve exporting competitiveness to help decrease the trade deficit.

Private Equity

Several important developments that were significant to the private equity sector in Vietnam occurred in 2009. Firstly, we saw acceleration in the number of divestments by the more mature funds, which was a very positive indication that profitable exits can be achieved through a variety of routes. Secondly, we observed an increase in the rate of new investments by private equity funds. Lastly, 2009 saw the demise of Indochina's private equity fund which is now in the process of being liquidated; an event that may affect fund raising efforts and encourage a more cautious future approach to investing in private equity amongst fund managers. 2010 is likely to see a continuation of these trends.

Prospects for deal activity appear positive. While the fund raising environment remains challenging in 2010, most regional and global fund managers still have cash available to invest and will be attracted to Vietnam due to its economic performance. In addition, certain fund managers are looking to raise new funds in 2010 but admit that the environment is still very challenging; however, most still have cash available to invest. Regional and global fund managers will be focusing greater attention on Vietnam due to its economic performance and prospects, so the prospects for deal activity appears positive. Pricing for private equity investments, whilst still expensive relative to other countries in the region, remain below the levels seen in 2007 and to some extent reflect the rapid rates of growth being achieved by many private companies.

The combination of these factors leads us to expect an increase in divestments from the established funds and an increase in new investments by Vietnam-focused and regionally-focused funds during 2010. Increasing interest rates may also encourage cash hungry Vietnamese private companies to turn to private equity for expansion capital, creating more opportunities for fund managers.

FMCG

Domestic demand-oriented companies in the FMCG sector will continue to attract the most attention from private equity funds that are not infrastructure/real estate focused and from strategic investors interested in accessing sectors likely to see ongoing rapid rates of growth. We therefore expect a significant number of M&A deals in this sector in 2010.

Entertainment and Media

The growth in the FMCG sector in Vietnam had a knock-on effect on media spending and is encouraging greater investment. We are certain to see further acquisitions by global players in this sector in 2010 as well as a consolidation amongst the smaller local companies.

Financial Services

After a quiet two years, 2010 may well see a rise in M&A. Certain of the larger private joint stock banks without a strategic investor will be looking to bring in the expertise of a major international bank whilst smaller joint stock banks are looking for fresh capital injections in order to meet government capitalisation requirements. Consolidation in the banking sector has been anticipated but has yet to materialise, but may happen soon if smaller banks are going to be able to compete.

The insurance sector continues to attract overseas interest and a number of the smaller life and non-life companies are likely to be targets for strategic buyers in 2010. Another financial services sector likely to see activity is the securities trading and brokerage sector since the argument for consolidation amongst the smaller firms seems to be compelling.

Real Estate

Whilst the office, serviced apartment and hotel sector returns appear, for the time being, to be less attractive, the condominium/villa sector and the second home market is still attracting strong interest. Many private Vietnamese companies are likely to look to raise new funds in 2010 to take advantage of such opportunities, stimulating M&A in the process.

Other Sectors

Industries that supply the FMCG and other sectors linked to domestic demand are also likely to see significant levels of M&A, particularly deals with a logistics focus. In addition, the ongoing need for massive capital injections into infrastructure in Vietnam is likely stimulate M&A in this area, in particular for the power industry where the government is calling for increased levels of foreign investment.

The retail sector continues to attract a great deal of attention despite ongoing concerns over legal restrictions.

Lastly, the education sector continues to attract significant attention from international companies and private equity alike. It is a field in which there are already a number of significant private Vietnamese companies and privately-owned foreign businesses with critical mass which would be attractive M&A targets. ■