Overall M&A values and volumes reached record levels in 2010 reflecting a rebound in the global economy, stronger growth in the local economy and increasing focus on market entry through M&A by Asian companies that view Vietnam as a key growth market and integral to their international expansion plans. Higher levels of outbound transactions have also boosted M&A values significantly.

Current Environment

The overall annual growth rate of GDP in 2010 reached 6.8%, compared to 5.3% in 2009, as easing of the government’s monetary policy coupled with a rebound in the global economy stimulated a pick-up in growth rates. The overall performance reflected an accelerating rate of growth in GDP during the year, with the second half of 2010 achieving 12% growth on an annualised basis.

Accelerating GDP growth led to a return of high inflation rates, which reached levels close to 12% by the end of 2010, above the 8% to 10% levels predicted by many economists at the start of the year. Increasing concerns over macro-economic instability surfaced towards the end of 2010 as continued weakness in the Vietnam Dong, which devalued by 5.3% during 2010, inflation and an ongoing balance of trade deficit affected the economy. The US$ selling reference rate of the State Bank of Vietnam was VND19,495 on 31st December 2010 compared to VND 18,479 at the end of the prior year.

Exports and imports increased by 25.5% and 20.1% respectively compared to 2009. The ongoing current account deficit, which reached 6% of GDP in 2010 and looks set to widen further in 2011, may contribute to further weakening of the Dong and erosion of the US Dollar reserves which fell to approximately US$16 billion in 2010.

The total value of foreign direct investment commitments licensed in 2010 increased to US$17.2 billion compared to US$16.5 billion in 2009; however, increases in committed capital at existing foreign invested entities was considerably down in 2010 at US$1.2 billion leading to a drop in the overall level of FDI compared to the prior year.

The benchmark stock exchange indicator, the VN-Index was relatively flat during the year ending at 485 points compared to 517 points at the beginning of the year. Returns were the second lowest in the region after China with Vietnam delivering negative US$ returns.

IPO activity picked up during the year with 189 companies newly listed on the two main stock exchanges. However, certain of the larger listings that occurred during the year were relatively unsuccessful, with that of PV Gas, one of state owned oil and gas giant PetroVietnam’s largest subsidiaries, being under subscribed.
Deal Activity

The rebound in deal values and volumes seen in 2009 continued in 2010 with an acceleration seen both in terms of reported values and volumes to reach almost US$1.75 billion from 345 deals for the year compared to US$1.1 billion and 295 deals for 2009.

Deals values were boosted by significant outbound deals involving Viettel Corporation, such as its US$300 million investment in Teletalk Bangladesh Limited and a US$59 million investment in Telecommunications d’Haiti SAM. The scale of these overseas investments marked a departure from past trends when outbound deals tended to be small in value terms and generally only involved PetroVietnam’s investments in upstream assets.

Another notable trend was the significant increase in M&A activity from Asian companies, especially Japanese corporations, which increasingly dominated inbound M&A. The trend reflects Japanese corporations’ attempts to accelerate their penetration of what they see as an important growth market in the region in order to compensate for stagnant domestic demand; it also reflects the fact that investment in Vietnam has become relatively cheap due to the appreciation of the Yen.

2010 trends also reflected restructuring by a number of Vietnamese corporations as some sought vertical integration in order to guarantee raw materials supply whilst others attempted to re-focus their groups around core businesses leading to disposals of assets considered non-core.

Private equity activity was more focused on the sell-side than on the buy-side in 2010 since certain of the older Vietnam-focused funds are approaching maturity and their fund managers are accordingly looking for exits. Attempts to raise new funds in a difficult market are also encouraging fund managers to exit more deals in order to show a proven track record of successful fund management. This is a trend we are likely to see continuing in 2011.
Vietnam Deal Activity 2009 – 2010 by quarter

Notable deals announced during the year included:

Inbound deals

State-owned Oman Investment Fund acquired a 12.6% stake, or 20.208 million ordinary shares, in Hanoi-based PetroVietnam Insurance JSC, a unit of state-owned Vietnam National Oil & Gas Group (PetroVietnam), for VND40,000 (US$2.12) per share, or a total value of VND808.3 billion (US$42.84 million).

Gamuda Land (HCMC) Sdn Bhd, a wholly-owned unit of Gamuda Bhd of Malaysia, agreed to acquire a 60% interest in Sai Gon Thuong Tin Tan Thang Investment Real Estate JSC, a Ho Chi Minh City based real estate development firm majority owned by Sai Gon Thuong Tin Real Estate JSC (Sacomreal), from Sacomreal for VND 23,889 (US$1.29) per share, or a total value of VND 1.533 trillion (US$82.8 million) in cash.

Fullerton Financial Holdings Pte Ltd of Singapore acquired a 15% stake, in Mekong Development Joint Stock Commercial Bank, a Long Xuyen-based bank for an undisclosed amount.

Orix Corporation of Japan acquired a 25% stake, or 11.408 million ordinary shares in Indochina Capital Vietnam Holdings Ltd, a real estate fund manager and provider of financial services, in a privately negotiated transaction.

Commonwealth Bank of Australia, acquired a 15% stake in Vietnam International Commercial Joint Stock Bank (VIB). Whilst information on pricing of this transaction was not made public, this is likely to be one largest deal in terms of deal size since VIB is one of the largest private banks in Vietnam.
**Vietnam Deal Activity 2009 – 2010 by quarter**

TNK-BP Holding of Russia, a 50:50 joint venture between BP PLC (BP) and Alfa Group Consortium, agreed to acquire a 35% stake in an offshore natural gas block belonging to BP Plc. Concurrently, TNK-BP agreed to acquire a 32.7% stake in the Nam Con Son Pipeline and Terminal and 33.3% stake in Phi My 3 BOT Power Co Ltd. These transactions were part of a larger overall transaction estimated to have a combined value of US$1.8 billion.

**Domestic Deals**

An undisclosed investor group acquired a 68.52% interest in Societe De Bourbon Tay Ninh, a producer of sugar cane and a 68.52%-owned unit of Bourbon SA of France, from Bourbon SA, for VND901.998 billion (US$46 million), in a privately negotiated transaction.

Vinasteel Corporation acquired an 85% interest in a steel factory belonging to Lilama Hanoi JSC, a Hanoi-based construction company and a majority-owned unit of the state-owned Vietnam Machinery Erection Corporation, for VND 579 billion (USD 29.5 million).

Trung Nguyen JSC acquired Saigon Coffee Factory from Vietnam Dairy Products JSC, a Ho Chi Minh City based producer and wholesaler of dairy products, for an estimated VND 784.313 billion (US$40 million).

An investor group, including Saigon Securities Inc., Jaccar Group of France and Dragon Capital Management Ltd, acquired an 11.75% stake or 23.5 million shares in Real Estate Corp, a real estate development firm and a wholly-owned unit of Hoang Anh Gia Lai JSC, for an estimated value of VND 1,200 billion (US$62.4 million) in cash.

An investor group, which included Thang Long Securities Co Ltd and Saigon-Hanoi Securities JSC, agreed to acquire a 10.31% stake, or 25 million ordinary shares, in PetroVietnam Construction Joint Stock Corp (PVC), a Hanoi-based provider of construction and engineering services, from its parent, PetroVietnam, for a total value of VND 625 billion (USD 32.5 million), in a privately negotiated transaction. Thang Long Securities Co Ltd later raised its stake in PVC to 13.94% from 0.61% by acquiring a further 13.33% stake, or 20 million ordinary shares, for VND 556 billion (US$28.9 million) in open market transactions.

An investor group comprised of STIC Investment Inc., FPT Securities Co and Bong Sen Fund Management Co acquired a 21% stake in Hoa Sen Group, an industrial conglomerate for a VND 45,000 (USD 2.40) per share, representing a total value of VND 538 billion (US$28 million), in a private negotiated transaction.

**Private Equity**

Notable private equity activity announced during 2010 included:

Mekong Capital Ltd divested its minority stake in Masan Food Corporation, a Ho Chi Minh based producer, wholesaler and retailer of food products and a majority-owned unit of Masan Group Corporation, to an undisclosed acquirer, for VND 368.6 billion (US$18.8 million).

Aureos South East Asian Fund of United Kingdom, a unit of Aureos Capital Ltd, agreed to acquire a 18.5% stake in Tran Anh Digital World JSC, a Hanoi-based wholesaler of computer devices for VND 80.8 billion (US$4.2 million) in cash, in a privately negotiated transaction.
Vietnam Deal Activity 2009 – 2010 by quarter

Mekong Capital Ltd divested its undisclosed minority stake in Maison JSC, a Ho Chi Minh based fashion retailer, to an undisclosed acquirer.

Masan Group Corporation acquired a 70% interest in Nui Phao Mining Joint Venture Co Ltd, a mining company, from Tiberon Minerals Pte Ltd (Tiberon) a majority-owned unit of Dragon Capital Corporation. Terms of the deal were not disclosed.

Outbound activity

One of the most notable aspects of M&A in 2010 was the fact that a small number of significant deals were transacted by Vietnamese companies outside of Vietnam. Three notable deals that were announced or closed in 2010 as follows:

Vietnam Dairy Products JSC acquired a 19.3% stake in Miraka Ltd, a producer of dairy products in order to secure supply of raw materials for its local operations. Terms were not disclosed.

Vietnamese state-owned Viettel Corporation announced that it planned to acquire a 60% interest in Bangladeshi state-owned Teletalk Bangladesh Ltd, a Dhaka-based provider of telecommunications services, for an estimated US$300 million.

Viettel Corporation also announced that it would acquire a 60% interest in the Haitian state-owned Telecommunications d'Haiti SAM, a Port-au-Prince based provider of telecommunications services, for HTG 2.3 billion (US$59 million).

Outlook

There were increasing concerns over the Vietnamese economy towards the end of 2010 as inflation reached double figures, the balance of trade gap continued to widen and pressure on the Dong continued unabated. Concerns over Vinashin’s debt default and the resulting impact on Vietnam’s credit rating have heightened the sense of concern. There is a growing sense that the economy is out of kilter and that development has been somewhat one dimensional, focussed too heavily on Vietnam’s abundant and cheap labour force and natural resources.

Whilst the country will undoubtedly continue to grow and to attract relatively high levels of foreign direct investment and M&A, this is likely to be another year of conservative fiscal policy aimed at re-establishing stability and building foundations for long term growth. The Communist Party National Congress held in January 2011 appears unlikely to trigger any major departure from the policies which have been in place for the past 10 to 15 years but may well reinforce current trends towards more conservative economic policies aimed at regaining stability at a macro level. There also appears to be increasing scrutiny by the government over the type of foreign investment activity being conducted in Vietnam and we are likely to see ongoing moves to encourage investment in sectors which add more value to the economy and which are less focussed on the processing of imported materials using cheap Vietnamese labour.

In terms of M&A, it is expected that volumes and values will remain high by Vietnam standards as Asian companies, in particular those from Japan, continue to show high levels of interest in Vietnam drawn by the market demographics and high growth rates. Such investment will come across all sectors of the economy but will be particularly focussed on manufacturing. In addition, the ongoing aftermath of the issues with regard to Vinashin will shape government and state owned enterprise policy going forward and should stimulate a raft of disposals of non-core assets by some of the large state owned group. High interest rates and liquidity issues will
Vietnam Deal Activity 2009 – 2010 by quarter

also continue to force domestic corporations in search of growth capital to turn to M&A for the answer to their funding needs.

Outbound activity, albeit on a smaller scale in terms of value, may see increased volumes as Vietnamese corporations look to grab market access in countries such as Laos, Cambodia and Myanmar.

Private Equity

As mentioned earlier we are likely to see further exits by Vietnam focussed funds and relatively little in the way of new investments as the focus continues to be on raising new funds, a slow process in the current environment.

FMCG

This sector’s link to the rapidly growing levels of consumption of consumer products by the local population, in particular the expanding middle class, and the country’s young population make this sector one of the most sought after in terms of M&A activity. Although there are limited numbers of companies of significant size available in the market to attract M&A, which will limit activity, it is likely that there will be a small number of relatively sizeable (by Vietnam standards) deals involving FMCG companies in 2011.

Financial Services

All the indications are that this sector will drive ongoing levels of M&A since the minimum capital requirements for banks set by the State Bank of Vietnam of VND3 trillion, in addition to pressures from increasing competition, will push smaller banks to look to new foreign investors to achieve expansion of their capital base and to gain access to technology and knowhow. There may also be some long awaited consolidation in the banking sector via domestic M&A deals.

In terms of other financial services sectors, there is an expectation of further deals in the securities company sector as investors in small players look to exit their often unprofitable investments in such companies.

Real Estate

Whilst the office, serviced apartment and hotel sector returns appear for the time being to have become less attractive, the condominium/villa sector and the second home market is still attracting strong interest and 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 local corporations will continue to divest non-core real estate assets or to sell down their stakes in order to raise cash to invest in core businesses.

Retail

The retail sector continues to attract a great deal of attention despite the ongoing concerns over legal restrictions facing foreign investors. Certain Vietnamese retailers are currently undergoing rapid expansion as they look to take advantage of changing consumer trends, trends which are stimulating rapid growth in the modern trade channel especially in the major cities. Rapid chain store expansion requires additional funding and in some cases the transfer of technical knowhow which will open up opportunities for private equity and strategic investments in this sector.
Vietnam Deal Activity 2009 – 2010 by quarter

**Education**

The education sector continues to attract significant attention from international education groups and private equity alike and 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 as M&A targets.

**Infrastructure**

The huge demand for power, roads, ports, bridges and other infrastructure to support the country’s growth, and the government’s recognition that this sector needs private investment if it is to keep pace with the growth in the economy, together with disposals of power assets by local private corporations and state owned companies, will lead to more M&A in 2011. PetroVietnam’s announcement that it will divest an interest in its Nhon Trach power plant is an example of the trend. Deals in the hydro power sector have been prevalent in 2010 and look set to continue going forward.
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(Please contact any of the professionals listed below for further details of our services in Vietnam and for world-wide contacts)

Ho Chi Minh City:
Saigon Tower, Level 4
29 Le Duan Boulevard
District 1, Ho Chi Minh City
Tel: [+84] (0)8 3823 0796
Fax: [+84] (0)8 3825 1947

Hanoi:
Pacific Palace, 7th Floor
83B Ly Thuong Kiet
Hoan Kiem District, Hanoi
Tel: [+84] (0)4 3946 2246
Fax: [+84] (0)4 3946 0705

Advisory

Mr. Stephen Gaskill
Mr. Marius Kunneke

Mr. Paul Coleman

We regularly share insights about the Vietnamese market via newsletters and our websites. To sign up for our emails alerts on regulatory & tax changes, please contact Richard Irwin, Partner, Tax and Legal Services at r.j.irwin@vn.pwc.com