



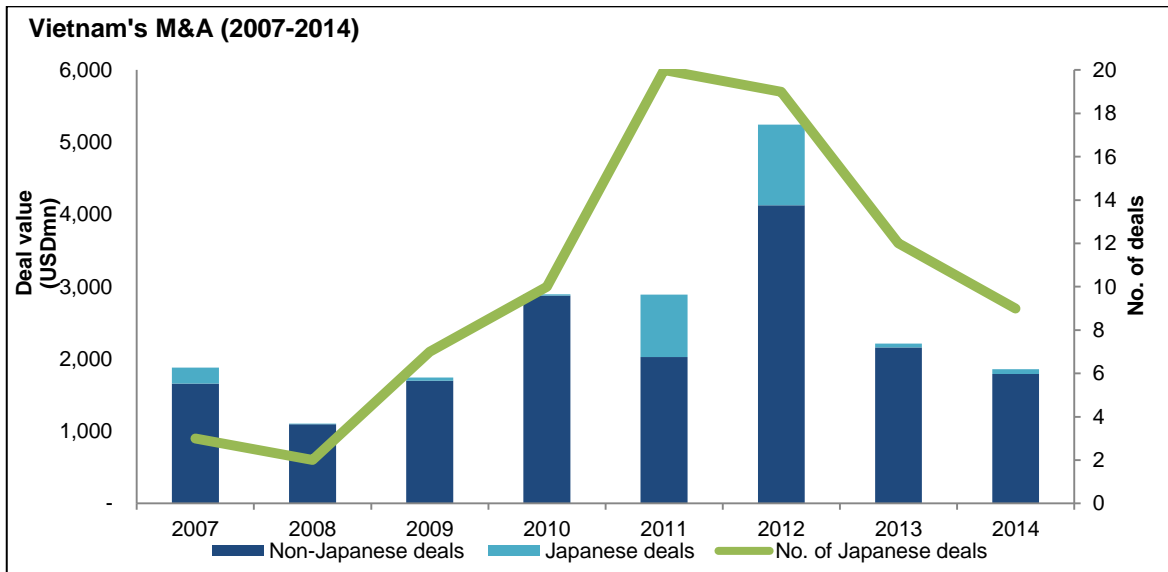
M&A will strengthen the strategic partnership between Japan and Vietnam

By **Stephen Gaskill**, Advisory Partner & **Nguyen Luong Hien**, Advisory Associate Director of PwC Vietnam

Vietnam has been an attractive destination for foreign investors since the country began opening up its economy in the late 1980s. Japan is currently the second largest contributor of Foreign Direct Investment (FDI) to Vietnam, ahead of other significant investors such as Singapore, Taiwan, Malaysia and the United States with US 37.7 billion in total registered investment capital as of June 2015 and has also been highly active in the field of M&A. Vietnam has been a strategic market for Japanese companies investing overseas for some time due to its close geographic proximity, low labour costs, abundant work force, its openness to investment by Japanese companies and the positive government to government relationship that exists between the two countries. Vietnam has been an investor-friendly country since the mid-1990s and has remained open to foreign investment, particularly from Japan which is seen by the Vietnamese government/domestic companies as a high quality, long-term investor. This combination of factors has led to high ongoing levels of Japanese FDI and M&A, the latter becoming an increasingly common route by which Japanese companies have entered the Vietnamese market, especially since 2007.

ATTRACTIVE SEGMENTS FOR M&A ACTIVITIES

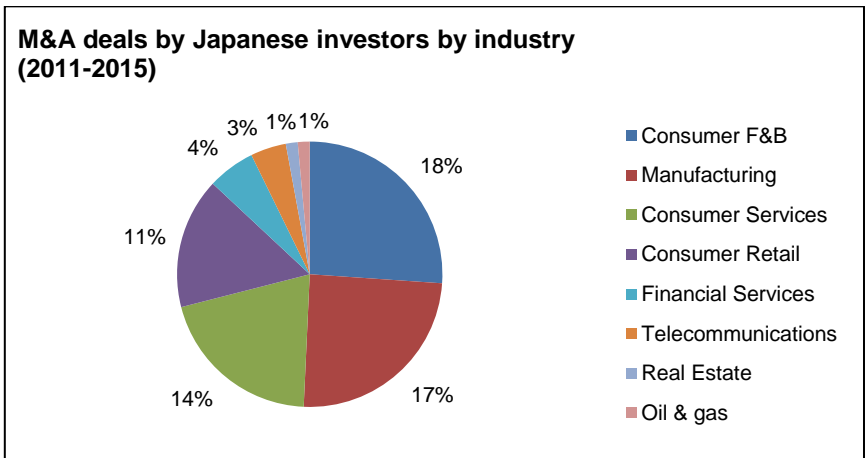
From 2011-2015, Japanese investors conducted nearly 70 M&A deals in a wide range of industries in Vietnam. Although Japanese M&A experienced a slow down following the peak of 2012, the first half of 2015 has shown strong signs of recovery, already reaching 75% of the total volume of deals announced in the whole of 2014 and is indicative of Japanese investors' long-term confidence and commitment to do business in Vietnam at the current time.



Source: mergermarket.com, PwC's analysis

One of the reasons for the high levels of Japanese M&A is that many Japanese companies, particularly the large trading houses and other conglomerates with subsidiaries involved in a diverse range of businesses, will invest in almost any sector of the Vietnamese economy including power, oil & gas, manufacturing, retail, financial services and agriculture. There are several factors driving this diverse range of sectors chosen for acquisitions. Some investors want to tap into Vietnam's low-cost manufacturing base (especially where there are investment incentives to do so) whilst others are looking to move manufacturing away from China where labour is becoming more expensive and there are geopolitical risks. Some Japanese investors want to tap into Vietnam's large, growing population as a market and to benefit from consumer trends that are still developing at a rapid pace as the economy matures and becomes more open. This is especially enticing for Japanese companies facing a domestic consumer market that is mature and a population that is shrinking and rapidly ageing. Many Japanese corporates are also sitting on significant cash piles and have little option but to invest overseas if they are to get a return on these funds given extremely low interest rates and limited economic growth in Japan.

One factor that differentiates Japanese investors entering into Vietnam via M&A is that they are very flexible on deal terms; many are willing to take minority stakes because they are very long-term investors who intend to take incremental steps as they form strategic partnerships with Vietnamese companies. Having minority stakes also allows investors to develop their understanding of the market over time without taking as big of a risk in the short term.



Source: mergermarket, PwC’s analysis

Notable Deals in Financial Services

Japanese investors have been focussing on Vietnam’s rapidly growing financial services sector for some time, encouraged by Vietnamese institutions that are looking for strategic foreign investors to support them in improving the performance of their businesses and providing much needed injections of capital to strengthen their balance sheets. One such example of a successful transaction was Tokyo Mitsubishi UFJ’s purchase of 20% of Vietinbank’s shares in December 2012 – a deal worth US\$ 743 million. Another successful deal occurred in 2011, when Mizuho made a US\$ 560 million investment in Vietcombank, acquiring 15% of the bank’s shares. These deals not only increased the charter capital of these financial institutions but also gave them access to expertise in banking from a highly developed economy. Vietnam still has a lot of room to grow in terms of its banking sector – the country currently has a large unbanked population compared to neighbouring countries like Thailand and Malaysia, making it an extremely attractive ongoing investment destination for Japanese financial services groups.

Japanese investors aren’t restricted to investing in banks; life/non-life insurance, consumer finance, leasing and other segments of the financial services sector are considered attractive areas for investment as illustrated in April 2015 by the announcement that Japan’s Credit Saison had purchased a 49 percent stake in HD Bank’s consumer finance arm (the value of the deal was not announced). Another notable deal occurred in 2013, when Sumitomo Life Insurance bought HSBC Holdings Plc’s 18 percent stake in Vietnam’s biggest insurer Bao Viet Holdings in a deal worth US 340 million.

Consumer Retail and Goods



In the consumer space, there have also been significant acquisitions in both the retail and consumer goods sectors conducted by Japanese investors in order to enter the local market more rapidly. Vietnam boasts a population of more than 90 million people with rising disposable incomes whilst the country has rapidly growing urban centres representing an attractive base of potential customers for many foreign consumer product companies.

In 2015, Japanese supermarket chain operator Aeon Company Limited tapped into Vietnam's consumer retail space by acquiring a 30% stake in Fivimart and a 49% stake in Citimart, two domestic supermarket/convenience store chains with a strong presence in Hanoi and Ho Chi Minh City. Convenience stores are becoming increasingly popular in Vietnam due to a general shift away from the traditional retail channels to more modern trade formats, something which has been fuelled not only by lifestyle changes but also by ongoing concerns over food safety.

Japanese investors have also shown considerable ongoing interest in entering the consumer goods space. Japanese F&B company Kirin bought 57.25% of Interfood (a Vietnamese based beverage manufacturer) for US\$ 31 million in 2011. In another notable deal in the same year, Unicharm, a Japanese manufacturer of feminine hygiene products, bought 95% stakes in Diana for US 181 million.

General manufacturing

Manufacturing is another area of interest for Japanese investors since Japanese companies have advanced technological capabilities in comparison to their Vietnamese counterparts and with Japanese investors seeing an opportunity to tap into a dynamic and growing market. In 2014, Dai Nippon Printing Co Ltd bought a 36 percent stake in MK Smart, a Vietnam based smart card manufacturer, in a deal worth US 10 million. In another notable transaction, Showa Aluminium Can Corp. bought a 92 percent stake in Rexam-Hanacans Joint Stock Company, a Vietnam based manufacturer of aluminium cans for beer and other types of beverages, for an undisclosed amount. Although neither deal was directly related to the consumer goods sector, both these deals were in industries with indirect links to the growth in the domestic consumer market. We expect this trend to continue as Japanese investors look to benefit from the growth in the domestic market by investing in packaging for consumer goods and other areas with links to rising consumer spending.

We also expect to see more activity in other areas of manufacturing. Many high-quality Japanese consumer and industrial goods manufacturers are shifting their manufacturing bases from China to Vietnam in order to take advantage of more affordable labour costs here in Vietnam. Wages in Vietnam remain competitive compared to those of neighbouring countries with an average monthly wage rate of



around 197 USD, only one third of those seen in China and Malaysia (US\$ 613 and US\$ 651 respectively, according to the International Labour Organisation). As mentioned previously, Vietnam also offers attractive incentives for investors in certain manufacturing segments (especially high tech industries) and has a large, hardworking labour force. In addition, Japanese investors have growing concerns about geopolitical risks in other countries in Asia (particularly China) including some in South East Asia and hence are looking to diversify their manufacturing base away from the more traditional geographical locations.

Future Outlook and investor's pain points

The outlook for further M&A activity by Japanese investors looks very positive in the short/medium term as corporate Japan continues to look outward and sees Vietnam as an important and stable investment location that is growing, has a rapidly evolving domestic consumer market and has a large number of willing sellers who are looking for capital and managerial/technical expertise from foreign investors.

The Vietnamese government has shown ongoing commitment to making Vietnam a more investor-friendly state, especially for Japanese investors whose government is Vietnam's largest contributor of Overseas Development Assistance (ODA) aside from the World Bank. This June, in a significant step forward, the government agreed to eliminate limits on foreign ownership in many listed companies, addressing one of the chief concerns of the international investment community. According to this law, overseas investors will now be allowed to increase their holdings in listed companies operating in a number of industries from 49% to 100%.

However, further enhancing Vietnam's current business relationship with Japan in the future is not without its hurdles to overcome. Although the pricing of deals in Vietnam remains reasonable in terms of multiples, one negative side of pricing is that they are generally set in US dollars. Since the Yen is devaluing against the US Dollar, deals are therefore becoming more expensive for Japanese companies. Targets of a reasonable size are also in short supply whilst State-owned-enterprise (SOE) reform isn't happening fast enough for most investors' liking and there remain barriers to entry in sectors such as banking and consumer finance. The economic downturn in China could also affect Vietnam's economy negatively in the short-term although it is likely to continue growing at a pace that will lead to an ever-growing number of opportunities for foreign investors looking to enter this exciting, if challenging market.

Despite the existence of these difficulties regarding doing business in Vietnam and the despite the threats posed by the recent trends in the global economy, we believe that M&A is still one of the most effective and rapid ways by which a Japanese company that is eager to tap into Vietnam's dynamic, fast-paced business landscape can gain access to the market. Japanese companies are therefore set to continue leading the way



regarding M&A activity in the medium term as they further their presence in this rapidly changing, developing economy.

About PwC Vietnam

- *Offices established in Hanoi and HCMC in 1994.*
- *A multi-disciplinary team of 750+ people with expertise across a range of skill sets and industries including professionals fluent in English and 19+ other languages such as Mandarin, Japanese, Korean, Thai, French, German, etc.*
- *Access to additional Vietnam specialists in the PwC regional and global network.*
- *Strong relationships with the government and regulators.*
- *The first “Big Four” company to establish a separate law firm in Vietnam, licensed by Vietnam’s Ministry of Justice, enabling us to offer comprehensive legal and advisory services.*

How we can help

<p><i>Understanding of Vietnam market and critical market drivers</i></p> <p>1 </p>	<p><i>Our extended networks</i></p> <p>2 </p>	<p><i>Expertise and experience from several industries</i></p> <p>3 </p>	<p><i>Different disciplines to address the pain points across PE value circle</i></p> <p>4 </p>
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Awards for our Advisory services in Vietnam

- Dealmakers of the Year-Vietnam 2014 - Acquisition International
- Advisory Firm of the Year, 2011 - Deal Makers Monthly

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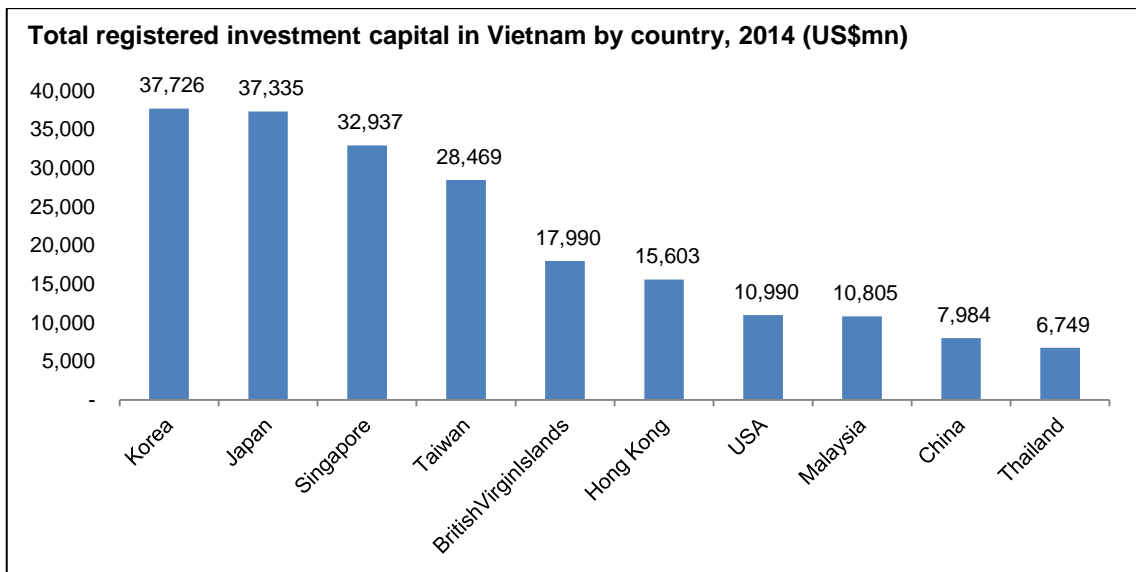
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Appendix

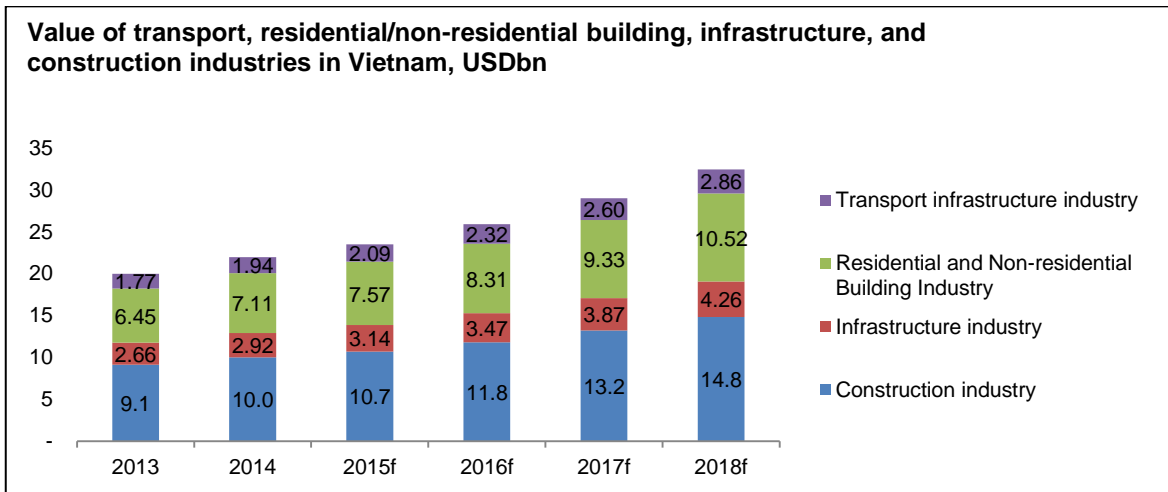
Japan is currently the second largest contributor of Foreign Direct Investment (FDI) to Vietnam, beating out other top investors such as Singapore, Taiwan, Malaysia, and the United States with over US\$37 billion in total registered investment capital as of December 2014.



Source: Ministry of Planning and Investment (MPI), JICA

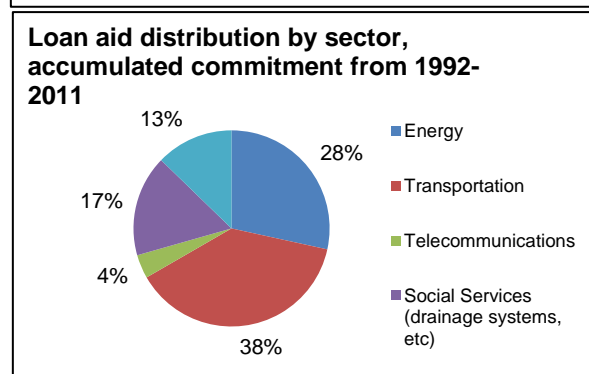
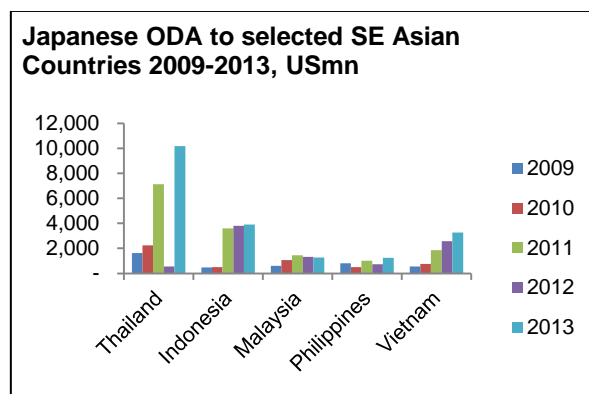
According to a report from the Japan Export Trade Research Organization (JETRO), Japan began recording FDI outflows to Vietnam in 2007 with FDI outward stock of US\$1.7 billions. That amount of investment grew to over US\$12 billions in 2014, showing a CAGR of 32%, which represents not only the highest CAGR for FDI outflows from Japan in all of Asia, but in the entire world during that period. Although Vietnam doesn't see as much FDI as other countries in Asia (such as Thailand with US\$52 billions in 2014), Japan has been ramping up the amount of investment Vietnam receives faster than anywhere else in the past decade.

A significant portion of the invested capital is going into infrastructure and construction projects. Vietnam's construction and infrastructure industry is expected to show strong growth in the coming years.



Source: Ministry of Planning and Investment (MPI), JICA

Japan has also been giving Vietnam an increasing amount of attention with regards to ODA in recent years in the form of both grants and loans, evidenced where the money is flowing in the SEA region.



Source: Ministry of Planning and Investment (MPI), JICA



Japan has been Vietnam's biggest ODA provider aside from the World Bank during the period of 1993-2012. The Japan International Cooperation Agency (JICA), the main organization in Japan supplying ODA to Vietnam, aligns itself with Vietnamese government master plans and initiatives by dedicating funds in line with the government's direction and goals. In addition to funding Vietnam's energy sector, JICA has shown a strong commitment to addressing Vietnam's weak infrastructure and transportation industries by focusing the largest amount of ODA into these areas.