



# Vietnam

*WTO membership and further reforms keep the country on a dynamic M&A growth trend*

## Current Environment

According to the latest available data from the General Statistics Office of Vietnam, GDP has increased by 7.9 percent in the first half of the year compared to the same period in 2006. This is in line both with Government expectations and the trend set in recent years. Industrial production growing at 16.9 percent remained a major contributor. Inflation has been on the rise moving from 6.4 percent in January to 7.8 percent in June. At the end of June, the Vietnamese Dong was trading at 16,135: to US\$1 compared to 16,042 at the end of 2006. The number of foreign visitors to Vietnam grew by 14.7 percent and might surpass 4 million by the end of the year, compared to only 2.1 million visitors in 2000.

Foreign Direct Investment (FDI) remained strong. There have been over 500 investment projects licensed until the end of June, with total authorised capital of US\$5.2 billion. Close to 20 percent of total FDI is generated by additional investments in projects approved in previous years. Total FDI for the full year is expected to be above the record level of 2006. Industry accounts for 56.5 percent of total FDI followed by services (43.2 percent).

The largest new FDI project is a US\$527 million hot-rolled steel mill in Ba Ria-Vung Tau province in the south. This is a joint venture between India's Essar Global Limited and two Vietnamese partners, Vietnam Steel and Vietnam Rubber Group. Elsewhere, in the central province of Thua Thien Hue, Singapore's Banyan Tree Group is investing US\$276 million in a luxury resort, including apartments, restaurants, golf course and other entertainment facilities expecting to serve at least 100,000 visitors a year. Furthermore, Thailand's Siam Cement Group invested in Binh Duong province in a US\$220 million carton plant in partnership with Vietnamese Vina Kraft Paper Co Ltd.

Exports grew by 19.4 percent during the period whilst imports grew by 30.4 percent. The trade deficit indicates that domestic companies were slower than expected in capitalising on export opportunities created by the country's WTO accession. The very significant increase in imports is to a large extent due to the demand for machines and equipment, including those needed for the implementation of key national projects, such as Dung Quat Oil Refinery.

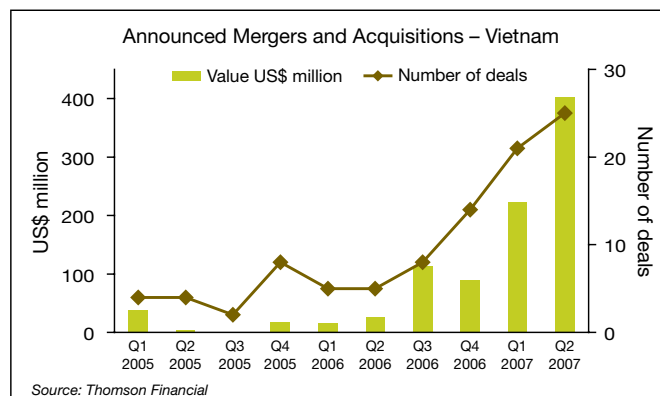
There have been 22 new Vietnam-focused funds set up so far in the year bringing the total to 52. The total assets of the funds that report their net asset values now equal US\$6 billion. Due to lack of transparency in the OTC markets, no reliable figures are available, but based on the foreign ownership of exchange traded stocks, it is estimated that a significant part of the money raised is yet to be invested.

The VNINDEX, as calculated by the Ho Chi Minh City Securities Trading Center, Vietnam's main Stock Exchange closed the first half of the year at 1,025 points, up by 36 and 233 percent from the 2006 and 2005 closes, respectively.

The market has declined from its peak of 1,170 points in March and dropped below 1,000 points by July. Yet preparation for the possibility of the bubble bursting and the massive influx of inexperienced retail investors became the topics of daily conversation. Overall, high inflation and the booming stock market have become the most serious challenges for Vietnamese policymakers.

Political highlights during the first half of the year include Prime Minister Nguyen Tan Dung's official visit to the Vatican in January; he was the first Vietnamese Prime Minister to do so. It is estimated that 6-8 million Vietnamese are Catholic, making it the second largest religion in the country. In May, the new members of the National Assembly were elected. Although the majority of candidates were nominated by the Communist party, there were also self-nominated candidates in the running.

## Deal Activity



The total value of the 46 deals recorded during the first six months of the year set a record of US\$626 million. This is more than twice the combined annual deal values recorded in 2005 and 2006 and almost a 15-fold increase compared to deal values in the first half of 2006. It is reasonable to assume that part of the growth is due to improving data coverage compared to last year, in line with the increasing focus on Vietnam. However, there can be no doubt that M&A activity initiated both by domestic and international players is rising significantly.

There have been 16 domestic deals and 30 cross borders ones. Acquiring foreign companies were mostly from Asia, accounting for 22 deals, lead by Singaporean companies conducting nine acquisitions. In terms of industries, banking and finance was the most important with a total deal count of nine, followed by eight deals in food and beverage. In many deals, especially in the financial sector, the merits of a foreign strategic investor buying a stake in a Vietnamese company are not judged on price alone. Specific commitments to invest in the expansion of operations, technical assistance and the willingness to provide know-how are key considerations in the evaluation of potential investors.



Notable deals announced during the first six months include:

- In June, Vietnam Eximbank agreed to sell 17.8 percent of its shares to a consortium of 16 domestic partners including major companies like Saigon Industrial Corp., PetroVietnam Finance Company, Asia Commercial Joint Stock Bank and Kinh Do Corp (Vietnam's largest confectioner). The transaction is valued at US\$248 million. In addition, the unlisted bank is understood to be considering selling a 30 percent stake to foreign investors (the allowable limit for foreign ownership in a domestic bank)
- In another deal in June, investment company Indochina Capital agreed to buy a 20 percent stake valued at US\$100 million in Hoang Quan Corp. and a 20 percent stake valued at US\$60 million in Hoang Quan-affiliated Hoang Quan Mekong Consulting, Trading and Service Real Estate Co. Earlier in the year, Indochina Capital had also announced the acquisition of 20 percent of Vinamit, a fruit processor company
- Also in June, Sojitz Corporation of Japan acquired a 20 percent stake of Interflour Vietnam for US\$80 million. The company is the second largest milling company in Vietnam. Due to rising incomes and growing consumption of meat, demand in Vietnam is growing for cereal grains that can be processed into animal feed
- In May, investment fund VinaCapital announced the US\$21 million purchase of a 70 percent stake in the Omni Saigon, a popular five-star hotel
- At the end of April, Qantas Airlines of Australia signed an investment agreement with the State Capital Investment Corporation, the investment holding arm of the Vietnamese Government, to purchase a 30 percent stake in Pacific Airlines, Vietnam's second largest carrier. The value of the deal was not disclosed. Qantas justified the decision with reference to the potential of the domestic market as much as Vietnam's increasing popularity as a tourist destination
- In April, Nestlé sold one of its Vietnamese dairy plants to Anco Foods a Vietnamese company. Financial details were not disclosed. Anco will continue to produce Nestlé branded yoghurts and milk through an ongoing licence agreement
- In March, Singapore based NatSteel Asia, a wholly-owned unit of Tata Steel of India, offered to acquire the entire share capital of SSE Steel Ltd, a rolled steel manufacturer, and a 70 percent interest in Vinausteel Ltd from Vietnam Industrial Investments Ltd. The two transactions were to have a combined value of US\$41 million. However, at the end of June the deal was terminated in favor of a higher offer received from Prudential Vietnam Securities Investment Fund Management Co. Ltd. Details of the new proposed transactions are not yet confirmed
- In February, HSBC announced plans to double its 10 percent holding in Techcombank. Whilst current regulations limit individual foreign shareholders to go beyond this limit, exemptions can be made on a case by case basis. In early July, HSBC became the first foreign bank to receive approval for a 15 percent stake and its application for the approval of the additional 5 percent is pending. If permission is granted, the total value of the deal will reach US\$85 million. In a similar deal, also in February, Deutsche Bank announced that it reached an agreement to buy a 20 percent stake in the Ha Noi Building Joint Stock Commercial Bank (Habubank). Subject to regulatory approval, Deutsche Bank will become the largest shareholder of Habubank and will be entitled to representation on Habubank's Board of Directors
- In January, the United Overseas Bank of Singapore agreed to acquire a 10 percent stake in Phuong Nam Bank for US\$30 million. Phuong Nam has a network of around 50 branches nationwide, and the figure is expected to rise to 70 this year

Amongst deals where no full details were disclosed, buyers include: Petronas, Malaysia's State Owned Oil and Gas Company, Temasek Holdings of Singapore, Nanjing Automobile of China, Carlsberg of Denmark, Air Liquide of France, and SK Corporation of South Korea.

## Outlook

Vietnam remains an attractive investment destination. Whilst many of the deals have historically been driven by Asian strategic investors, we expect more multinationals to enter or increase their existing commitment to the country. In recent weeks, for example, Vodafone confirmed that it is investigating market entry opportunities and has set up a representative office in Hanoi.

A further source of continued growth in M&A activity is likely to come from funds dedicated to Vietnamese investments and existing Asia-focused private equity funds will likely provide a further boost in the foreseeable future. Potential investors must be certain to assess the market with reason and not emotion as the current valuations of many publicly traded stocks are difficult to justify based on publicly available company information. The best investment strategy is to stick to the fundamentals and not get carried away with the heat of the market.