

## Improved terms yet to tempt Vietnam watchers

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It's a buyers market in Vietnam at the moment. But while investors are returning to evaluate Vietnamese assets, they are not buying yet, according to Andy Ho, head of investment at VinaCapital Investment Management.

"Vietnam has a lot of investment opportunities," says Ho. "Investors are getting profit guarantees and improved private equity terms in general, as Vietnamese businesses seek financing and strategic partners."

Nonetheless, investors continue to be cautious, especially since the government has failed to rein in prices. Most recently, the government announced but has not implemented, a series of plans to control prices of key commodities and restrict imports, which drew public criticism from foreign investors.

In 2008, inflation surged to nearly 30% at one point and effective commercial interest rates were 21%. Currently, the Vietnamese dong appears to be under pressure. Some analysts suspect the 5.3% GDP growth in 2009 may be unsustainable and that the Vietnamese banking system might be unsteady. "However, others believe the Vietnamese government will be able to navigate these challenges and achieve their targeted GDP growth of 6.5% in 2010," Ho says. Ho does not think Vietnam is brewing a bubble, although that seems to be the conventional wisdom. "There are more good assets than there is available cash," says Ho.

There are also frustrations perennial to most emerging markets. A Grant Thornton survey of private equity investors in 2009 found that 88% of investors said dealing with government red tape was the most significant hurdle in Vietnam. The second most cited obstacle, by 85% of respondents, was the legal system. Inadequate infrastructure, corruption, currency controls, real estate ownership laws and access to debt finance were other major aggravations.

For these reasons, investors tend to treat Vietnamese assets as high-risk, long-term investments. Previously, the investors were mostly American and European, but now about half are Asian, including Chinese and Korean pension funds and endowments.

In private equity, Vietnamese assets should return a minimum of 25% IRR, Ho estimates. He foresees a pipeline of assets flowing from merger and acquisition activities, as the Vietnamese government estimates that 30% to 50% of all companies will merge or be acquired in the next five to 10 years. In 2009, Vietnam announced 295 merger and acquisition deals worth US\$1.14 billion, which is a 77% growth in volume and 2% growth in value. In contrast, M&A deals worldwide declined 7% in volume to 38,325 and 28% in value, to US\$2.1 trillion.

Vietnam's sovereign fund, the State Capital Investment Corporation (SCIC), is also continually divesting companies in its portfolio. SCIC, which invests in companies and key sectors on behalf of the state and is chaired by Vietnam's minister of finance, had a list of 239 companies to be divested in 2009, in which it had stakes of 99% to 5%. SCIC's portfolio as at end January 2010 had a book value of US\$586 million from 638 companies.

Vina Capital manages US\$1.75 billion in five funds, three of which are listed on the London Stock Exchange. It is in the process of raising funds for two private equity vehicles, Ho says: "They will target long-term institutional investors with an interest in Vietnam and who require an LP/GP model fund." Other private equity firms reportedly raising funds for Vietnamese assets in 2010 include Aureos Capital and Mekong Capital.

Singapore's Temasek Holdings, has been investing in Vietnam directly and indirectly for a number of years, and has two representative offices in Vietnam. As of March 2009, Temasek's S\$130 billion portfolio has a 9% allocation to ASEAN markets, including Vietnam.

Over the last few years, Temasek invested into Vietnamese companies such as Minh Phu Seafood, Vinasun Taxi Company, Binh Chanh Construction and Investment Company and Petrovietnam Fertilizer and Chemicals. In March 2010, Temasek-owned company Singapore Technologies Telemedia acquired 10% of VNPT Global, a Vietnamese telecommunication company.