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Riding the wave of Vietnam's new successes

VinaCapital's market valuation could soon be 10% of the country's stock market capitalisation. William Barnes talks to its chief, Don Lam

Fleeing a Vietnam ruled by a cocky and oppressive communist regime was an unhappy experience for an 11-year-old Don Lam. Twenty-eight years later the founder of Vietnam's most dynamic asset management group still remembers the refugee camp in Hong Kong. "So boring, so suffocating, so hopeless."

When the family was able to migrate to Canada, with the sponsorship of a church group, his life started to roll. Profits from the family convenience store were enough to put four children through college.

Mr Lam was clearly marked out for advancement when his company Coopers & Lybrand (as was) sent him back to Vietnam as country representative in 1994. This was in many ways perfect timing. The young man was superbly placed to see the mistakes being made by investors who piled in after Hanoi's post-1975 hubris had deflated to the point where it was prepared to commence "restructuring".

The early fund managers might have spotted the inherent dynamism yet were often premature, inflexible or naive, says Mr Lam. "Too many investors tried to follow mature market rules. They tried to press templates that worked in Europe on Vietnam. 'We can't invest in start-ups. We can't invest in SOEs [state-owned enterprises]. You can't approach this kind of market with a rigid plan without getting burnt – as most of them did."

Mr Lam's suspicion that canny investors could prosper in Vietnam received confirma-

tion of a kind in 2001 when he accompanied deputy prime minister (now prime minister), Nguyen Tan Dung, to Washington to sign a bilateral trade agreement. It was "a critical milestone", he says. "It meant 'Let's forget about the past, let's go forward'."

When Horst Geicke, a German entrepreneur with two decades of experience in Asia (and a co-founder of the Hong Kong-based fund manager Pacific Alliance), proposed the partnership that became VinaCapital, of which Mr Lam is now chief executive, Mr Lam was eager. "It was a once in a lifetime chance. Did I want to be just another face in a giant company (at the time, PricewaterhouseCoopers) or did I want to make an impact?" he says.

Mr Geicke and Mr Lam firmly agreed on complete flexibility. "We decided to rule nothing out that might be profitable."

The first wave of early 1990s funds had almost all closed down (rival Dragon Capital being the notable exception) before, in 2002, Vietnam acquired its first stock exchange. VinaCapital dominates the second wave of 40 funds whose managers are in the country.

A willingness to grab opportunities seems to be working. A \$10m (£4.9m, €6.9m) fund has grown to \$1.8bn in assets in, now, four funds. The Vietnam Opportunity Fund, a closed-end venture listed on London's Alternative Investment Market in 2003, invests in "anything and everything".

Recent roadshows still show that many outsiders harbour the "odd" misconception that investing in Vietnam remains complicated and tiresome, helping to keep global interest firmly focused on Chindia. However, Hanoi made local authorities the eager suitors of foreign investors when, seven years ago, provinces and cities were permitted to issue their own investment licences. "That simple stroke had a dramatic effect. Investors get the red carpet treatment now."

Last year foreign direct investment

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jumped to \$10bn from \$5bn the year before, official figures show. It is expected to top \$15bn this year. Just \$10bn-\$12bn is expected to go into India, Mr Lam says. Vietnam's rulers are acutely aware that a young population (60 per cent of the 85m Vietnamese were born after the end of the Vietnam war) needs to be entertained by economic success.

If Hanoi desires China's economic flamboyance it wants to shun the frank inequalities opening up between the rich coastal regions and the huge inner provinces, with all the potential for social unrest that this implies, argues Mr Lam.

Vietnam will likely complement China by making small runs of high value-added items. "A 10 container order is nothing in China, but welcome in Vietnam," he adds.

Above all Vietnam will prosper because, although it may track China, it is defiantly not the Middle Kingdom. Sophisticated investors do not want all their eggs in China's basket: believers in the "China plus one" theory are increasingly coming to the conclusion that the "one" is Vietnam.

Mr Lam is brisk about the strains of rapid development from a low base. "The economy is too hot. Managing inflation (at nearly 8 per cent) is a critical challenge for the authorities."

The re-energised state-owned enterprises, busy farms, foreign-owned factories and tourism industry are expanding faster than the country is building new ports, roads and power stations.

Infrastructure investment is a "big worry". Cargo ships are riding in the ocean for two or three days waiting to get into port, Mr Lam says. But every danger contains an opportunity: VinaCapital's Vietnam Infrastructure fund started trading in July.

As for actual investment targets Mr Lam likes growing local firms that dominate their domestic markets. The Hao Phat group, for example, has a good brand name in the construction materials business that gives it a healthy mark up. Similarly the Mason group makes Vietnam's most popular Chin-su brand noodles and soy sauce. VinaCapital likes to invest before an IPO – and reap the rewards when the valuation jumps.

Every visitor to Vietnam sees the explosive growth in construction yet VinaCapital has found it hard to find reliable local developers. "Typically we do it ourselves," says Mr Lam. VinaCapital has revamped the Sofitel Metropole (the country's "premier" hotel) and invested in other hotel, office and mall projects. VinaLand, a closed-end property fund, was launched last year on Aim.

VinaCapital's market valuation might

soon be equivalent to 10 per cent of Vietnam's still modest stock market capitalisation of some \$25bn. Yet Mr Lam does not expect any problem finding juicy investment targets for at least another decade.

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Vietnam's new star

Don Lam is chief executive of VinaCapital, which is perfectly positioned to profit from the country's explosive growth

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