# A second opportunity to get SOE equitisation right

## Introduction

- **Resolution 11,** a major reform program initiated by the Politburo in 2011, is geared to restore macro stability to the economy by comprehensively restructuring 3 major economic areas:
  - The banking sector
  - SOEs
  - The public investment program
- The government is currently implementing vigorous reforms:
  - For the banking sector via the establishment of VAMCs to resolve bad debt issues.
  - For public investments by focusing on infrastructure projects.
- **The PM issued an equitisation and privatization plan (called Resolution 15/NQ-CP)** in March of 2014. This ambitious initiative, implemented over the next 2 years, is a priority for Vietnam's leadership.

## A missed opportunity

- Vietnam had an excellent opportunity to capitalize on equitisation of the SOE sector and expand its capital markets in 2007, just after joining the WTO. Unfortunately, it was unable to take advantage. The bear market that emerged in 2008-09 was cited as the reason for the missed opportunity. However, an improved capital market environment due to renewed macro stability has presented another opportunity.
- Vietnam's major market index VNI gained 22% in 2013 (the best performer in SE Asia) and another 16% increase in Jan – Feb of 2014.

## A new beginning

- The privatization of SOEs can bring two main benefits:
  - **A source of revenues** for the state to be used for financing the budget or other important investment projects.  In this case, it is desirable to sell sate assets at the highest possible price.
  - **An opportunity** to restructure SOEs to make them a fully efficient component of the national economy. If so then one should proceed to sell SOEs at the market price that can be fetched, and then let the change in ownership structure and governance work its effect on the now-privatized enterprise
- Increasing revenues has proven challenging recently. While we do consider it important, it's secondary to restructuring, which is the primary purpose of equitisation. For years, the SOE sector has consistently lagged behind domestic businesses and FIEs (Foreign Investment Enterprises) in performance. At 35% of GDP it is a drag on overall production capacity for the economy. We think the latest plan by the Prime Minister, Resolution 15/NQ_CP, provides the opportunity to achieve both objectives.
- **While ambitious,** the commitment to privatize 432 SOEs during 2014-2015, compared to 180 during 2011-2013, is realistic. The Prime Minister entrusted execution to the Deputy Director of his office, ensuring he will stay well informed of the program's progress.
- **The Prime Minister authorized** divestiture of non-core businesses at less than market value to make them more attractive to investors. Before 2013, when the market was not as strong, such discounts were penalized for precipitating losses in state assets. The new climate will free SOE managers to facilitate divestment without concern for penalties.
- **Managers of SOEs will be accountable** for meeting deadlines. Failure to do so may result in transfers or removals in favor of other executives.
- **Timing is paramount**.  At present, Vietnam's capital markets are improving and foreign investors' interest in Vietnam is at the highest level in years.

## Key IPOs expected to occur over the next 12-months[1]

- **Airport Corporation of Vietnam** owns and operates the three largest airports in Vietnam.
    - Charter capital: USD700 million
    - Annual revenue and profit of USD400 million and USD64 million, respectively.
    - 25% potential ownership stake available for the public.

- **Vietnam Airlines,** the largest airline operator in Vietnam.
    - Charter capital: USD430 million
    - Annual revenue and profit of USD3.5 billion and USD25 million, respectively.
    - 25-35% potential ownership stake available for the public.


- **Vinatex,** the largest garment and textile company in Vietnam.
    - Charter capital: USD240 million
    - Annual revenue and profit of USD2.2 billion and USD68 million, respectively.
    - 49% potential ownership stake available for the public.

- **Mobifone,** one of the top three telecommunications operators in Vietnam.
    - Share capital: N/A
    - Annual revenue and profit of USD1.9 billion and USD311 million, respectively.

- **Vina Cement,** one of Vietnam's largest cement manufacturers.
    - Share capital: USD580 million
    - Annual revenue and profit of USD1.5 billion and USD26 million, respectively.

1: According to SSI and respective company websites

## Concluding observations

- **There is considerable progress.** Thus far, more than 4,000 SOEs have been equitised or otherwise merged or restructured.
- **The external market environment, as well as the internal structural features,** of the 2014-2015 reform program are favorable for its implementation and success. However, the amount of effort and determination required across ministries and agencies to bring it to a successful conclusion remains significant.

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**Note:**

We are planning **a series of short papers** on SOE privatization in Vietnam. This is the first one, focusing on **a renewed government effort** to accelerate its policy in this area, as contained in Resolution 15/NQ-CP issued by the PM. Subsequent papers are as follows:

**Paper 2**

- **The role of foreign investors** and how they can derive benefits from a participation in this equitization program.
- **The channels** in which such participation can occur.
- The possibility of **an alignment of interests** between management and investors.

**Paper 3**

- The **government motivations** in undertaking privatization.
- Who are the stakeholders?
- How are they affected?
- What is their role in:
  - Speeding up the process with support.
  - Slowing down the process through lack of cooperation.

**Paper 4**

- **Regulatory restrictions**
- Different rules apply to different types of SOEs:
  - SOEs under 100% state control: national security, heavy industries, mineral resources.
  - Special role of banks and financial institutions.
  - Restricted sectors:
    - State control must be > 50%
  - Unrestricted sectors:
    - State controls can be < 50%

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