



Vietnam M&A Research Report | Issue 2 | 15 May 2012

Opportunities in Distressed Companies and Increased Deal Flows from Japan



Our Research Team:

Thuan Nguyen, FCCA

Chief Executive Officer
StoxPlus Corporation
thuan.nguyen@stoxplus.com
+84(4) 35626962 (ext. 111)

Harry Hoan Tran, CFA

Head of Research
StoxPlus Corporation
harry.tran@stoxplus.com
+44 (0) 791201 3738

Hong Bui Ngoc, LLM

Partner
Indochine Counsel
hong.bui@indochinecounsel.com
+84 (8) 3823 9640

Trang Truong

Data Specialist
StoxPlus Corporation
trang.truong@stoxplus.com
+84(4) 35626962 (ext. 110)

Table of contents

PREFACE	3
EXECUTIVE SUMMARY	4 – 5
1. VIETNAM ECONOMIC ENVIRONMENT	6 – 14
2. KEY M&A THEMES	15 – 21
3. VIETNAM M&A ACTIVITY- 2011-2012 REVIEW	22 – 34
4. WHY M&A NOW? AN INSIDE-OUT VIEW	35 – 43
5. M&A OPPORTUNITIES IN THE FINANCIAL SECTOR	44 – 50
6. EXPECTED VALUATION	51 – 55
7. M&A REGULATORY ROUNDUPS AND PROCEDURAL GUIDANCE	56 – 70
8. OUR METHODOLOGY	71 – 73
Annex 1: Full List of Inbound M&A Transactions Factsheet	74 – 87
Disclaimers	88
About the Authors and StoxPlus Corporation	89

Part One: Vietnam Economic Environment

Limited investment opportunities from upcoming IPOs for foreign investors

According to the SOE Reform Committee, Vietnam has 1,309 wholly owned SOEs and the Government will boost the privatisation process for 573 during 2011-2015. We provide below in Figure 7 for the Top 10 upcoming IPO opportunities that were planned for 2012-2015.

We see a number of difficulties in achieving this target. This is because most of these SOEs are in loss making (Vietnam Airlines, Vicem, Song Da Group etc). Agribank is experiencing a difficult time with a significantly high non-performing loan ratio of 6%.

Included in the list is MobiFone which appears the most attractive IPO by foreign investors since this is a cash rich business. However, we noted that several foreign institutional investors and foreign telecom companies have been waiting for nearly 10 years and they may not be patient anymore. In 2011, MobiFone reported total revenue of US\$2.1bn and earnings before tax of US\$286mn. Saigon Trading Group (Satra), the largest food retailer in Vietnam, also shows strong financial performance since it operates in defensive sector such as food retailing.

We don't see good opportunities for foreign investors in upcoming IPOs of large Vietnamese State Owned Companies except MobiFone and Satra.

Figure 7: Selected Coming SOE IPOs, 2002-2015

Main SOE IPOs: 2012-2015			
No	SOE	Sector	2011 Revenue (US\$bn)
1	Vinatex	Garment	1.7
2	Vietnam Airlines	Airlines	2.2
3	Vietnam Paper Corp	Paper	0.3
4	Vinafood 1	Food	1.0
5	Vinachem (Chemical Corp)	Chemicals	1.9
6	Vicem (Cement Corp)	Cement	1.3
7	Song Da Group	Construction	1.3
8	Agribank	Banking	n/a
9	MobiFone	Telecom	2.1
10	Satra (Saigon Trading Corp)	Retail	1.5

Source: StoxPlus

*Part Two: Vietnam
M&A Key Themes*

2.1 Inbound M&A Key Themes

1. M&A Deals done at cheap valuation multiples

The credit crunch has resulted in cheap valuation across asset classes and sectors. Average valuation of stocks listed on Vietnamese stock markets tumbled to 11x of their latest earnings, 75% of stocks are being traded below book value and 60% of stocks below par value (VND10,000 or US\$0.5). Real estates, particularly housing and lands in two major cities Hanoi and HCMC dropped by 40-50% over the last year.

Many foreign firms have seized this opportunity to acquire cheap assets in Vietnam. We noted from our detailed review of 17 selected share acquisition transactions by foreign investors that average deal valuation is at 14.1x of earnings (PE) and 2.1x of book value (PB). This average valuation is not far higher than the overall stock market valuation (11x PE), Vietnamese Food & Beverage sector (13.1x PE) and Asian Food & Beverage sectors (China: 48.8x PE; Thailand: 23x PE).

Some of sample deal valuations in Food & Beverage sector include:

- The Nawaplastic Industries (Saraburi), a member of Siam Group from Thailand accumulated 22.7% stake in Tien Phong Plastics at 9x PE and 16.7% in Minh Minh Plastics at just 5x P/E. These are the Vietnam's two top plastic players with combined total national market share of 55%.
- In a recently announced public offer to buy, Diageo pays 97.8% premium to current market price of Hanoi Liquor (Halico) in order to increase their ownership from 30% to 45.7% of a leading alcoholic and food company in Vietnam. The offered price of VND213,600 (US\$10.4) per share is translated into 31.9x the target's 2011 earnings and 6x P/B.
- Glico, a Japanese bakery company, purchased 10% of Kinh Do (KDC), a leading bakery in Vietnam, at VND50,000 (US\$2.4) per share which is translated into 22x of its 2011 earnings. This valuation is 92% premium to market valuation that time but significantly lower than regional average valuation where Food and Beverage sector in China is trading at PE of 48.8x and 23x PE in Thailand.
- Most recently CFR, a Chile based pharmaceutical firm, paid just US\$9.4m to acquire 45% of Domesco, a leading herb distributor, valuing Domesco at just 5.3x its 2011 earnings. Nichirei Foods paid acquired 19% stake in Cholimex at 19.8x PE, Cholimex is a spicy food supplier which has reported a 30% compounding annual growth rate in revenue over the last five years.

In real estates sector, we also noted many land areas and construction in progress where owners decided to cut loss by selling at significantly below costs. In some large land areas at prime locations in Hanoi and HCMC, a number of transactions have been concluded at price range US\$1500-US\$2000 per m² to foreign buyers while previously the asking price was almost double.

Capita Value Homes - member of CapitaLand acquired 70% stake in a 29,000 m² land area in District 2, HCMC for US\$49mn. This valuation translated into purchase price of US\$2,414 per m². Another member of CapitaLand, The Ascott Limited also purchased 9,000sqm land area Somerset Central in Hai Phong City for US\$1,026 per m².

*Part Three: Vietnam
M&A Activity 2011-
2012 Review*

Inbound by Country: Japan ranked first in both value and volume

Inbound M&A deal value totaled US\$3.5bn in 59 deals.

Japanese investors have highest interest with 18 deals with total US\$940mn.

Thai firms are tapping into Plastic sector in Vietnam via M&A

Kusto Group of Kazakhstan increased additional ownership in Vietnamese housing builders.

Inbound M&A into Vietnam totaled US\$3.5bn in value in 2011 with 59 transactions. Strong interests from Japanese firms have realised in the largest deal value (US\$940mn) and volume (18 deals) compared to other countries and territories. The number of deals from Japan accounted for 31% (18 over total 59 inbound deals) while deal value accounted for 27% of total inbound value. This is because Japanese buyers prefer mid to small companies in doing M&A in Vietnam. Greater China (including Mainland China, Hong Kong, Taiwan) is ranked the second with 4 deals and total deal value of US\$723mn. See Figure 15 below for other countries.

In Q1/2012, Perenco, a privately held Anglo-French oil and gas explorer, acquired minority stakes in two Oil Field blocks and a Gas Pipeline project from Conoco Phillips and to continue the business cooperation with Petrol Vietnam in this joint venture. Total deal amount, including loan commitments, is estimated at US\$1.3bn in a single transaction.

In Q1/2012, there are 19 inbound transactions with total value of US\$1.4bn. Excluding the asset acquisition in Oil Blocks from France, Japan continues their strong interest in acquiring Vietnamese businesses in Q1/2012 with 9 deals completed for US\$86mn. Thai firms also played an active role in Q1/2012. Nawaplastic Industries (Saraburi), a member of Siam Group from Thailand accumulated equity ownership of 23% and 18% into Tien Phong Plastic Corp and Binh Minh Plastics Corp - the top two plastic producers in Vietnam.

Kusto Group from Kazakhstan acquired additional 25% ownership in the Vietnam's leading home builder Cotec Construction via private placements in a US\$25mn deal. The deal was concluded in March 2012 at a price of US\$2.5 per share representing approximately 30% premium to its share price on stock exchange.

Figure 15: Inbound M&A, 2011

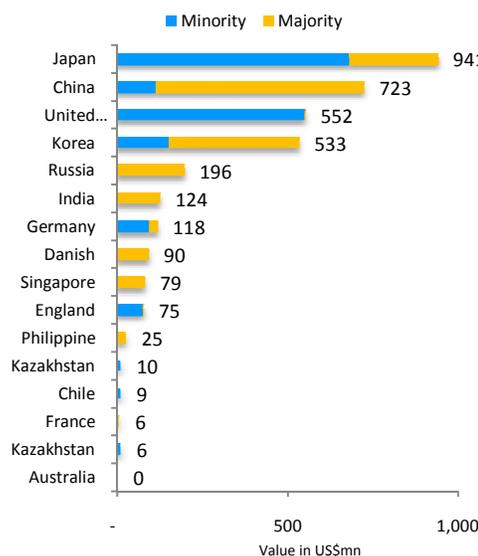
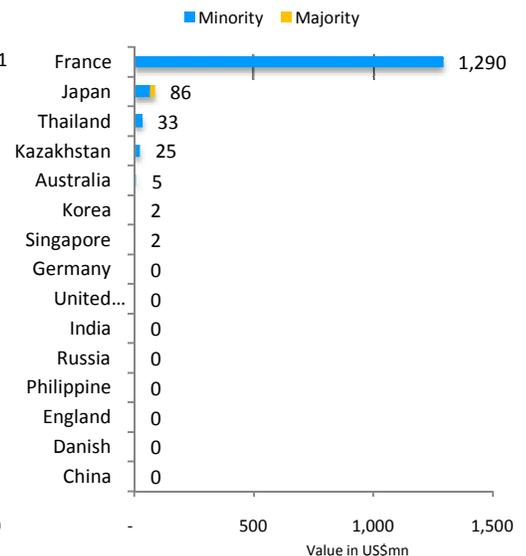


Figure 16: Inbound M&A, Q1 2012



Source: StoxPlus

Inbound by Sector: Food & Beverage and Financial sectors are most attractive

Food & Beverage and Banks are top two sectors acquired by foreign players.

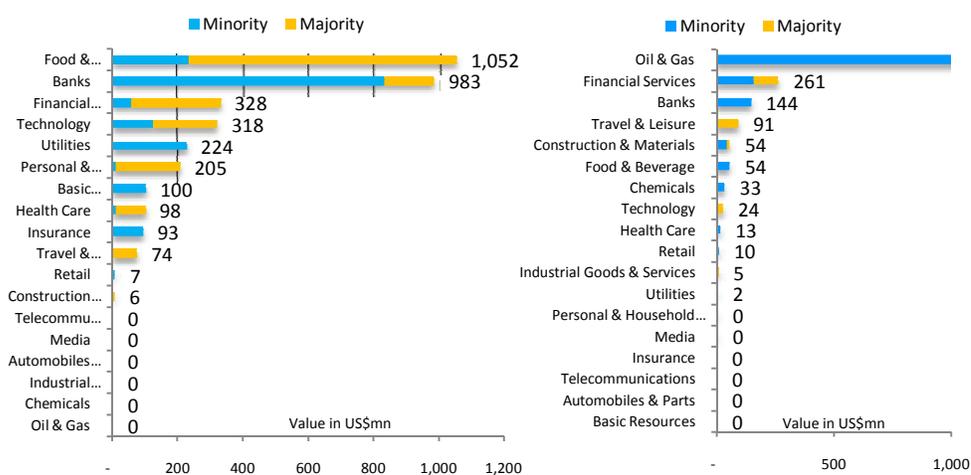
Sector analysis of total US\$3.5bn Inbound M&A deal value into Vietnam in 2011 and Q1/2012 is presented in Figure 20 and 21 below. There are total 57 inbound deals in 2012 and 19 inbound deals in Q12012.

The most favor sectors in Vietnam for Inbound M&A by foreign investors are: (i) Food & Beverage with 10 deals (US\$1.091m); (ii) Banks with 6 inbound deals totaling US\$983mn; (iii) Financial Services including securities companies, asset management firms and real estate developers with 14 deals totaling US\$329mn; and Technology including e-commerce/Internet with 14 deals valuing US\$308mn.

Oil & Gas sector saw an extraordinary deal in Q1/2012 because there are only one large transaction where Perenco, a privately held Anglo-French oil and gas explorer, acquired minority stakes in two Oil Field blocks from Conoco Phillips and to continue the business cooperation with Petrol Vietnam in this joint venture. Total deal amount estimated at US\$1.29bn in a single transaction.

Figure 20: Inbound M&A by Sector, 2011

Figure 21: Inbound M&A by Sector, Q12012



Source: StoxPlus

Foreign investors acquired majority interests in F&B but only minority interests in Vietnamese Banks due to regulatory restrictions.

We define in this report majority stake acquisitions happen when a buyer obtains an ownership equal or higher than 49%. Less than 49% M&A investments are classified as a minority stake M&A deal. Foreign players maintain a high level of control in F&B sector by executing majority ownership interest acquisitions. 7 over 14 inbound investments in F&B sector in 2011 are made at more than 49% ownership. Majority acquisitions also accounted for 79% of total deal value in F&B sector in 2011.

In contrast to F&B, inbound deals in Vietnamese Banks are mostly at minority interests due to high regulatory restriction in this sector (of 30% for total foreign investors and 15% for qualified strategic investors with some exceptions). There was only one majority acquisition in Banks where Shinhan Financial Group from Korea purchased 50% stake in a joint venture bank from Vietcombank for US\$64mn in November 2011 and converted into a 100% foreign owned bank.

Foreign Investors (Inbound) vs. Domestic Investors

Foreign players are increasing exposures in Vietnam via acquiring mostly at majority interests in F&B and Vietnamese Banks. In contrast, domestic investors are very active in acquiring wholly or controlling stakes in real estate projects (which included in Financial Services). In Real Estate sector only, there were 56 deals with total value US\$603mn concluded in 2011.

In 2011, top active sector by domestic deals among domestic investors are real estate projects (included in Financial Services) while foreign investors like F&B.

Figure 22: Inbound M&A by Sector, 2011

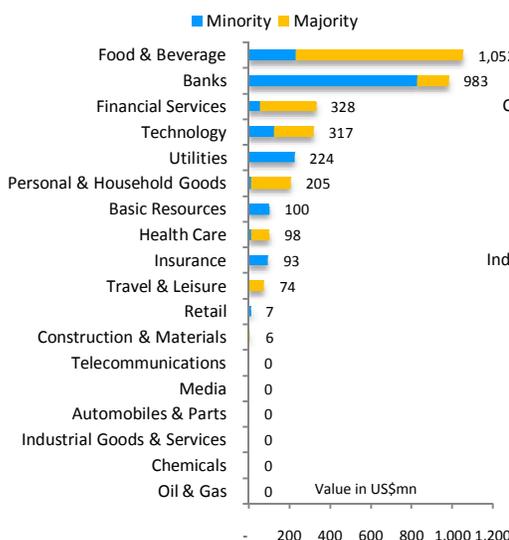
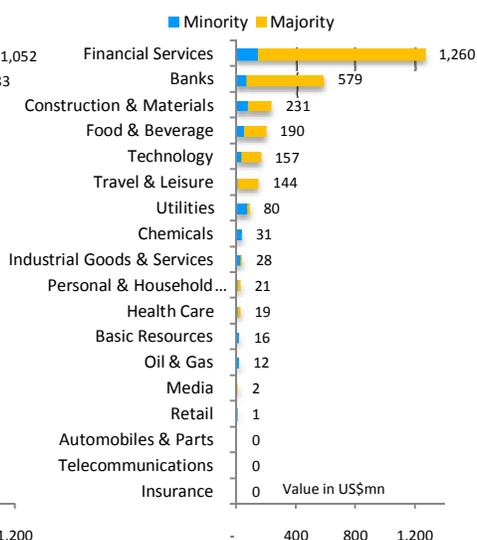


Figure 23: Domestic M&A by Sector, 2011



Source: StoxPlus

Figure 24: Inbound M&A by Sector: Q12012

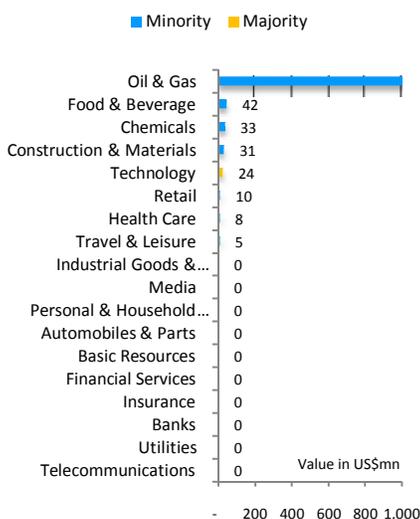
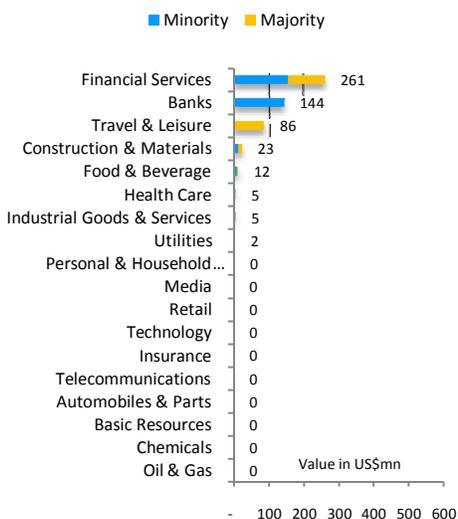


Figure 25: Domestic M&A by Sector: Q12012



Source: StoxPlus

In Q1/2012, F&B is still much favored by foreign investors. Local investors are very active in acquiring well established hotels (included in Travel & Leisure sector).

*Part Four: Why M&A now?
An Inside-out View*

Part Four: Why M&A Now? An Inside-out View

Unaffordable lending rates

There are many debates on this topic by various stakeholders including experts, economists, policy makers, bankers and even company’s executives. However, from our observation, they all failed to indicate an important clause: to what level the lending rate should be reduced in order to ensure local enterprises alive and survive before generating any value to their shareholders.

We have a data series to show that, on average, Return on Invested Capital¹ (“ROIC”) of all nearly one thousand public non-financial companies in Vietnam is just about 14% per annum over the last 5 years from 2007-2011. The Invested Capital consists of Owner’s capital and Debts (short term and long term debts).

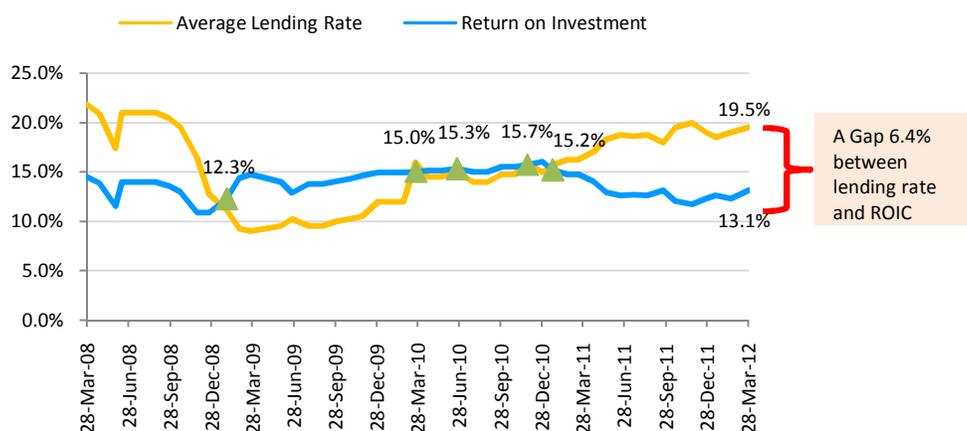
Average lending rates in Vietnam historically soared up to 22% in March 2008 following the start of credit crunch in banking system. Thanks to the interest subsidised program introduced in early 2009, the rate reduced to as low as 9% from February 2009 but only for a limited number of qualified borrowers.

In March 2012, average lending rates to enterprises in Vietnam were 19.5% per annum, our data showed. We witnessed in reality a number of companies still borrowed at 25-30% p.a. for about-to-complete housing projects. Following various measures undertaken by Government including lowering deposit interest cap to 12% recently and the elimination of troubled banks from market, there are currently some initial positive signals in pressing down lending.

A gap of 6.4% between lending rate and return on invested capital.

In the meantime, this cost of funding is significantly higher compared to corporate earning capability. See Figure 31 below, a gap of 6.4%, by our own calculation, between the average lending rate in March 2012 and average Return on Invested Capital (“ROIC”). While main sources of fund to Vietnamese companies are from banks, this is considered as a main cause in current distressed situation in enterprise community across sectors in Vietnam economy.

Figure 31: Gap between Average Lending rate and ROIC, 2007-2011



Source: StoxPlus. Lending rates obtained from SBV Monthly Reports

¹ROIC = Earnings Before Interest and Tax / (Debts + Total Owner’s Capital)

*Part Five: M&A Opportunities
in the Financial Sector*

*Part Six: What
Valuation Expected*

Part Seven: M&A Regulatory Roundups and Procedural Guidance

This Section is prepared with contributions from Indochine Counsel, a Ho Chi Minh City-based law firm. We acknowledge and express our sincere appreciation to Indochine Counsel, especially to Managing Partner Dang The Duc and Partner Bui Ngoc Hong, for their valuable contributions.

For inquiries and more information on this Section, please contact Bui Ngoc Hong at hong.bui@indochinecounsel.com.



Types of acquisition transaction commonly used by foreign investors (cont'd)

Type 3: Asset Acquisition

The investor may choose to make an asset acquisition in which the investor, using a new Foreign Invested Enterprise (FIE) or an existing FIE as the acquiring vehicle, directly purchases some or all assets of the target company in Vietnam.

The year 2012 is witnessing difficult days in Vietnam for many local companies, where the loans are generally extended at annual interest of about 25%. In the context that the stock exchange has a long time been not a strong source for capital mobilization, this extremely expensive loan interest is expected to bring opportunities for acquirers of distressed assets. The advantage of this asset acquisition, as its name suggests, is that it enables the foreign investor to purchase only the target assets that the purchaser wishes to acquire, and keep the acquirer free from any liabilities that the target company may have.

Asset acquisition is, however, subject to relevant review and approval by Vietnamese authority. In addition, transaction documents for an asset acquisition may be more complicated when involving many different types of assets (and accordingly regulatory regime and approving and registration authorities). In these difficult days of year 2012, it is recommendable to asset acquirers that the target (distressed) assets should be checked and verified carefully to avoid any previously inflated value as well as any outstanding encumbrances.

Holcim's Cotec Cement acquisition can be cited as a typical asset acquisition. In this transaction, Holcim has chosen to implement its investment by acquiring solely and entirely the clinker grinder plant from Cotec Group. To meet the statutory requirements of business registration, the acquired asset was registered as a branch of Holcim Vietnam.

Box 2: A typical case of utilising the acquisition types

In late 2011, Sumitomo Electric Device Innovations, Inc., finished its acquisition of Sumiden Device Innovations Vietnam Co., Ltd. The acquisition was conducted in the form of direct share acquisition. This acquisition has, however, undergone specially structured transaction. Sumitomo Electric Device Innovations, Inc., wanted to acquire only one among several manufacturing divisions of an FIE in Vietnam. The targeted manufacturing division was not a major part of the vendor foreign investors. Sumitomo Electric Device Innovations, Inc., could have conducted their transaction as an asset acquisition. However, asset acquisition in this case would have been very time consuming to complete registration for title transfer of the ownership over the construction buildings between the seller and the purchaser. In the meantime, the existing employees remained part of the acquirer's target, and Sumitomo Electric Device Innovations, Inc., also wished to change the name of the target company, registering for new business lines and increased investment capital to expand operation in Vietnam.

Eventually, the deal was structured in two phases. The first phase is to conduct a company separation onto the existing FIE, so as to form Sumiden Device Innovations Vietnam Co., Ltd. as a target company and concurrently keeps this target entity free from any liabilities. The second phase is to conduct a share acquisition in which Sumitomo Electric Device Innovations, Inc., acquired entirely the equity interests in Sumiden Device Innovations Vietnam Co., Ltd. and concurrently conducting other changes to this target company. This transaction meets the requirement of acquiring liability-free assets, while enabling the continued employment of existing employees and production activities, and additionally conducting some corporate and investment changes to the target company while leaving the transfer of the title over the construction building to be legally and comfortably conducted long after the conclusion of the deal.

*Annex 1: Full List of Inbound
M&A Transaction Factsheet*

Annex 1: Full List of Inbound M&A Transactions Factsheet

BANKS

Acquiror	JAPAN	Type	Date	Size (US\$m)	% Shares	Deal P/E	Deal P/B
MIZUHO CORPORATE BANK LTD		Acquisition	30/9/11	576.5	0% → 15%	16.8	2.5
Taget Name	The deal finally concluded on 30 Sep 2011 after various approval process with State Bank of Vietnam at VND34.000 (US\$1.7) per share which is 56% premium to VCB's share price on market at that time. This valuation translated into 16.8x VCB's 2011 earnings and x2.5x its book value. The deal proceed of US\$576.5mn helps the bank's CAR improved to 14%. Vietcombank is currently known as the most financially transparent bank. Its NPL reported at 2.8% by Q12012 which is lower than the sector's NPL average of 3.7%.						
VIETCOMBANK							
Seller							
Acquiror	UNITED STATES	Type	Date	Size (US\$m)	% Shares	Deal P/E	Deal P/B
IFC		Acquisition	28/7/11	186.0	0% → 10%	7.5	1.6
Taget Name	IFC and its affiliated fund acquired 10% via private placements at VND21.000 (US\$1.0) per share which is 18.6% premium to the bank's share price on market. The valuation translates into 1.6 times its book value as at 31 Dec 2011 and 7.5 times its 2011's earnings. IFC also provided \$125mn loan at 6-month Libor plus 1.5% p.a., due in 10 years. Vietinbank is still in another 15% deal negotiation process with a strategic investor. The process delayed due to significantly informal lending breakout from this bank, according to our intelligent sources.						
VIETINBANK							
Seller							
Acquiror	KOREA	Type	Date	Size (US\$m)	% Shares	Deal P/E	Deal P/B
SHINHAN VIETNAM LTD		Merger	29/11/11	92.1	0% → 50%	2.5	0.8
Taget Name	This merger happened following the 50% exit of Vietcombank in the joint venture on 17 Nov 2011. Upon merged, the 100% foreign bank has VND4.575bn charter capital and VND18 trillion total assets. Shinhan Vietnam Ltd also ranked first in term of charter capital in the only 5 foreign invested banks licensed by SBV.						
SHINHAN VINA JV							
Seller							
VIETCOMBANK							
Acquiror	KOREA	Type	Date	Size (US\$m)	% Shares	Deal P/E	Deal P/B
SHINHAN FINANCIAL GROUP		Acquisition	17/11/11	63.4	0% → 50%	1.7	0.6
Taget Name	Deal valuation is at 2.2 times of the original investment US\$32.5 made by Vietcombank 19 years ago in 1993 setting up this joint venture bank. Local banker's view is that this is a successful deal for Vietcombank under current banking turbulence and the banking liquidity crunch. The US\$63.4 cash proceed helps improve liquidity position of Vietcombank comparing to its peers including Vietinbank, Agribank and BIDV.						
SHINHAN VINA JV							
Seller							
VIETCOMBANK							
Acquiror	UNITED STATES	Type	Date	Size (US\$m)	% Shares	Deal P/E	Deal P/B
IFC		Acquisition	24/1/11	40.5	0% → 10%	16.7	2.0
Taget Name	The deal also includes VND480bn (US\$24mn) convertible bond and VND312bn (US\$16mn) straight bond into An Binh Bank. The 10% equity stake was made at VND22,000 (US\$1.1) per share which translates into 2.0x book value as at 31 Dec 2010 and 16.7x the bank's 2010's earnings.						
AN BINH BANK							
Seller							
Acquiror	CHINA	Type	Date	Size (US\$m)	% Shares	Deal P/E	Deal P/B
MR. CHANG HEN JUI (TAIWAN)		Acquisition	16/6/11	23.9	0% → 3%	7.4	1.1
Taget Name	The deal estimated at US\$23.9mn. This is a anti-acquisition effort by existing nominated shareholders to fight against the acquirors: Eximbank and a group of investors. Mr. Chang Hen Jui is known as husband of a member of Sacombank's Board. However, this anti-hostile takeover measure failed because Eximbank and a group of investors already own 65% stake in this bank following recent purchases of 60 million share blocks from old owners.						
SACOMBANK							
Seller							
DRAGON CAPITAL							

Important Disclosures

- This material is prepared by StoxPlus Corporation for the purpose of furnishing information only.
- This material is not intended to recommend or suggest any particular transaction.
- Any information contained in this material shall be used at your own discretion and risk. StoxPlus Corporation will not be subject to any liability for any consequence caused by the information contained in this material.
- This material may be changed without any prior notice. Content of this material may be changed according to any changes in the situation, or effects of the additional information after its preparation, and StoxPlus Corporation shall undertake no obligation to update, revise or complement the content of this material according to the changes.
- While this material is prepared based on the public information and other information StoxPlus Corporation duly obtained, StoxPlus Corporation has not independently verified its accuracy, completeness, or suitability for your use, also shall not guarantee them.
- StoxPlus Corporation reserves the copyright of this material. This material is protected in accordance with the copyright laws of Vietnam and other countries, as well as the treaty provisions regarding the copyrights signed between Vietnam and other countries. For any purpose whatsoever, no one shall be entitled to duplicate, summarize, quote, or reprint this material, or disclose it to the third party without StoxPlus Corporation's prior consent.

About the Authors



Thuan Nguyen is the Founder and CEO of StoxPlus. He also leads the Research Division. Thuan is a well-known author for many insightful articles and reports covering business and finance in Vietnam. Thuan had 15 years of experience in Transaction Services, Investment and Audit. Previously he was a manager at Financial Services Division of PwC (Sydney and Hanoi offices) and Investment Analyst at Vietnam Holding Asset Management Ltd. Thuan is a fellow member of ACCA UK.



Harry Hoan Tran is currently executive chairman of StoxPlus. He is an expert with 16 years of experiences in banking and finance. He was previously an Investment Director in Lehman Brothers, Lloyds Banking Group and senior manager in Capital Markets Advisory Division of PwC London. He worked for PwC Vietnam from 1996 to 2001 where he involved in a number of banking restructuring projects in Vietnam. He is a CFA chartered holder and a fellow member ACCA UK.

About StoxPlus Corporation

StoxPlus Corporation is a leading data and intelligent information provider in Vietnam. Our services include data feeds, a subscription based stock analysis software StoxPro and intelligent research services.

StoxPlus is now serving more than 100 corporate clients including securities companies, asset managers, investment companies, financial media firms and thousands of sophisticated individual investors.

Our Research division is established as an independent research house in Vietnam to deliver research assignments covering macro economic and equity market, and sector and market screening. We also provide deal intelligent information and specialised data analysis works for local and foreign financial institution clients.

Contact us

If you have any questions about this report or our services, please don't hesitate to contact Thuan Nguyen, CEO of StoxPlus at thuan.nguyen@stoxplus.com or +84-4-3562 6962, ext. 111.