



Vietnam

A fast growing economy, expected WTO entry and incentives for inward investment raise the prospects for M&A growth

Current Environment

This represents our initiation of coverage on Vietnam which will continue as a regular addition to this Bulletin. Although Vietnam is in terms of its nominal GDP and GDP per head the smallest and poorest economy of the 14 countries and territories featured in this Bulletin, there are a number of reasons for optimism for potential investors.

Vietnam has experienced average real annual GDP growth of 7.5% from 2001 to 2005 and economists are predicting growth of 7% between 2006 and 2010 second only to China in the Asia Pacific region. GDP grew by 7.7% during the first half of 2006, thanks to strong private sector demand and solid performance in the Manufacturing and Agriculture sectors.

High on the Government's agenda is the possibility of entry into the World Trade Organisation (WTO), which is hoped to be ratified in October 2006. In addition, at the 10th National Party Congress in April 2006, measures to attract investment for industrial development, reorganisation of education and training, improving the healthcare system and environmental protection were the focus of deliberation.

Key focus areas for industrial development in the next five years include the development of a new and more active export structure, promotion of a shift to high-tech and high value products and industries and an increase in the ratio of output from the knowledge industry. Underpinning this development is a plan for exports to fuel industrial development over the coming five years. This will include implementation of measures to attract development capital from domestic and foreign sources.

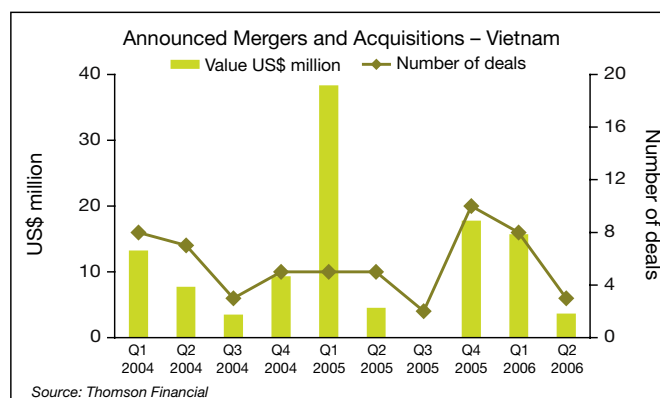
Specifically relating to foreign investment, the Government has indicated that a number of "sensitive" sectors such as banking, insurance and aviation should maintain clear regulations on the suitable limit for foreign investment, whilst in the remaining areas the cap on foreign investment should be raised over the current 30%.

The Government has recently been praised for its achievements in the Asia Pacific Human Development Report of the United Nations Development Programme. This recognition is thanks mainly to indicators such as literacy, education, life expectancy and others, generally ranking higher than comparable economies.

Economic development is increasingly being driven by the private sector and a good record of attracting foreign investment, in line with the Government's strategy. According to the Ministry of Planning and Investment, the total committed foreign direct investment in Vietnam in 2005 at US\$5.8 billion represented a year-on-year increase of 41%.

Whilst agriculture remains the key source of employment, services account for 40% of economic output, including participation in outsourcing for multinationals like IBM, Cisco and Sony. At the same time, a reputation for diligent and relatively inexpensive labour has been attracting Western manufacturers since the economic liberalisation began in 1990's.

Deal Activity



Given the development stage of the local M&A market, accurate and comprehensive data for deals is difficult to obtain.

Yet, although the number and value of reported M&A deals remains volatile, the macro trend is upward, with recent years attracting foreign investors primarily via the sales of minority shareholdings and numerous joint ventures. Private equity and venture capital firms have also been reported to be testing the waters. As the number and value of transactions grow, we expect that information about deals in the market will improve.

In the tourism sector, a US\$86 million joint venture project between Hanoi-based Hoang Dat and Silver Shores of California has been given the green light for the construction of a 600-room, five-star hotel, an international conference centre and a casino.

In January, SABMiller entered into a US\$45 million, 50%-50% joint venture with the Vietnam Dairy Products Joint Stock Company ("Vinamilk") to establish a greenfield brewery in the Binh Duong.

In expectation of increasing trade between Vietnam and Russia, the Bank for Investment and Development of Vietnam initiated a US\$30 million joint venture with Vneshtorgbank, Russia's Foreign Trade Bank.



In March, the Oversea-Chinese Banking Corporation entered into an agreement to subscribe for a 10% stake in Vietnam Joint-Stock Commercial Bank for Private Enterprises (“VP Bank”) for approximately US\$15.7 million and secured an option to increase its holdings to 20%.

Following the purchase of a 10% stake in Vietnam’s largest joint stock bank, Sacombank last year, Australia and New Zealand Bank (ANZ) has agreed to form a credit card joint venture in March 2006 with this same partner. The number of credit card holders in Vietnam is estimated to be around only 100,000 out of a population of 85 million people. ANZ will own 40% of the joint venture following regulatory approval.

In May, Hutchison Telecom, present in the Vietnamese market since 2004, announced plans to jointly invest together with its local partner, Hanoi Telecommunications, more than US\$655 million in a mobile phone network in Vietnam over the next 15 years.

In June, Burlington WorldWide, a division of International Textile Group, announced its plan to build a state-of-the-art cotton manufacturing complex in DaNang via an investment in a joint venture with Phong Phu Corporation exceeding US\$80 million. Burlington, will own 60% of the joint venture.

Lafarge SA recently announced that it has inaugurated its first cement grinding plant in the Dong Nai province, a US\$30 million investment. This is the first project of Lafarge XI Mang, a 70% owned joint venture with a Vietnamese building materials company.

Soco International, an oil and gas exploration and production company headquartered in London, announced that it has purchased an additional 2% interest in the Block 16-1 oil field in the offshore Cuu Long Basin increasing its total interest in the Block to 30.5%. The consideration paid for the acquisition was US\$22 million in cash.

Outlook

Entry to the WTO may provide significant opportunities for inward investors, as membership will lead to the elimination of restrictions of foreign ownership in a number of sectors including the telecommunications sector. Increased competition and consolidation is expected in fragmented industries such as pharmaceuticals. Investments in infrastructure projects are also underway and being planned in anticipation of increased trading volumes.

As an active member of the Asia Pacific Economic Cooperation (APEC), Vietnam will play host this year to numerous regional events culminating in the 14th APEC Economic Leaders’ Meeting in November. This event is also focusing more attention from foreign investors.

Various private equity and specialised funds are preparing for the removal of limitations regarding foreign shareholdings. For example, the International Data Group (IDG), a large IT media company, observed that readers of IT publications grow approximately 25% a year and launched a US\$100 million fund in targeting high-tech companies. Similarly, Vietnam Holding raised US\$112.5 million in London in anticipation of investment opportunities in firms to be privatised. Lastly, in March, VinaLand raised US\$200 million to focus on property investments. The fund is run by VinaCapital, fund manager of the London AIM-listed Vietnam Opportunity Fund.

The size of the population and the growth rate of the economy looks set to attract more multinationals to target the domestic market, which following the path of companies such as Mitsubishi, which has been successfully manufacturing and selling cars to the domestic market for over ten years. Statistics from the Ministry of Planning and Investment Foreign Investment Agency indicated that currently 106 out of the Fortune 500 list of leading multinationals are present in Vietnam.

Nevertheless, export oriented manufacturing will likely to be the most important sector attracting foreign investors. A testimony to this trend included Intel’s decision in February to invest US\$300 million in building a semiconductor assembly and test facility in Ho Chi Minh City. As was observed in the Asia Pacific Human Development Report 2006:

“Export success stories in East Asia include Malaysia and Thailand. Indonesia and the Philippines have also been performing more strongly of late. But coming up fastest is Vietnam, whose exports have been growing by 20% annually since the early 1980’s – promising to make this East Asia’s next major middle income economy.”

Thanks to the combination of positive factors culminating this year, our outlook for M&A activity is reasonably optimistic. In the near term, deal sizes are expected to remain small but as restrictions ease and the economy continues to grow, look for larger and more complex deals to materialise.

