Vietnam standing its ground in private equity realm

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The COVID-19 pandemic has disrupted countless lives and businesses, causing the world's economy to slump as global GDP shrunk by 4.1 per cent in 2020, as estimated by S&P. Nonetheless, Vietnam stood out as one of the brighter spots of 2020 with an estimated GDP growth rate of 2.91 per cent thanks to its effective handling of the pandemic.

Looking at 2021, Vietnam remains favoured with an expected GDP growth rate between 6.7 per cent, according to the International Monetary Fund, and 8.1 per cent, as estimated by Goldman Sachs and HSBC. Given Vietnam's effective control of the health crisis and its economic implications, such positive outlook comes from multiple supporting factors.

Firstly, the rapid rise of the established middle class and the more affluent group, which both grew from 25 per cent in 2017 to 45 per cent of the population in 2030.

Secondly, multilateral trade tariffs are being largely eliminated between Vietnam, Asia-Pacific, and the EU nations, which will benefit the expansion of key export products, such as smartphones and electronic products, textiles, footwear, and agricultural products.

Thirdly, the positive changes in the Law on Enterprises 2020 and the Law on Investment 2020 will help unlock more opportunities for foreign investors, as well as bring better protection to minority shareholders.

Though COVID-19 has imposed many challenges, it has also offered many growth opportunities. Companies with strong resources and agile management teams could navigate the uncertainties and gain market shares from those who have been shaken during the turbulences and were slow to react.

This agility is also demonstrated in the digitalisation of business operations, not only in the form of providing products and services like online sales, but also in business management and daily operational activities such as collaborating via video calls.

Throughout the last year, activities of global and regional private equity (PE) markets posed a downwards trend. Vietnam's PE market, in contrast, still saw an upwards trend in both the number of deals and their values. The global PE industry suffered an overall drop of 13.1 per cent in the number of deals and a 33.8 per cent decrease in total value during the first half of 2020, compared to the same period of 2019.

During the first half 2020, deal activities in the ASEAN-5 and Vietnam generally slowed down after a busy 2019. The number of deals dropped from 230 in the first half of 2019 to 200 in the first half of 2020,

and their value dropped by more than half from $9.1 billion to only $4.3 billion.

Vietnam was behind Malaysia in 2019 but then surpassed it in the first half of 2020 as the only country with increasing trend despite COVID-19.

Vietnam's PE sector is expected to see even larger growth in 2021 as most investors believe deals will only be postponed for less than a year. When the country relaxes its travel restrictions again, it is expected that there will be a significant jump in the number of deals.

According to our survey, the most attractive industries are logistics and transportation, education, renewable energies, technology and fintech, and healthcare.

The market size of the logistics sector is expected to reach $113 billion by 2022, posing a compounded annual growth rate (CAGR) of 16.6 per cent. This strong growth is supported by a good number of free trade agreements and the booming e-commerce sector. Large manufacturers such as Apple, LG, and Panasonic consider Vietnam a new hub to diversify their supply chains and distribution networks away from the US-China trade war and the pandemic.

The education sector is forecast to continue attracting investment thanks to the growth of the middle class, accompanied by an increase in spending on education, not only for children, but also for workers aged 40 and below as they are striving to acquire more skills and knowledge to meet the ever-increasing demand of the labour market.

The growth prospects in healthcare, meanwhile, come from the higher healthcare spending per capita with a CAGR of 9.8 per cent from $194 in 2019 to an expected $309 in 2024. The shortage of qualified personnel and inadequate healthcare infrastructure results in a huge supply gap, and the increasing ageing speed of the Vietnamese population will further boost healthcare demand.

Meanwhile, the technology sector has been attracting a lot of venture capital and PE funds, with an impressive CAGR of 26.1 per cent in the 2015-2019 period. Multiple drivers for investment include favourable tax incentives, government credit support, and low cost-high quality labour.

In renewable energies, Vietnam has become home to the second-largest installed capacity in ASEAN with 54,880MW in 2019. As a prioritised industry with a rising targeted share of 6.5 per cent in the total electricity production in 2020 to 10.7 per cent in 2030, the renewables industry requires $10.8 billion annual investment from now to 2030.

The industry receives many incentives from the government, including preferable tax schemes, the previous feed-in tariff for solar energy, and the approval for full foreign ownership in energy companies. While we expect a slowdown in solar power, we also believe that wind power will receive a lot of attention in the coming time.

In general, the positive achievements in the fight against the pandemic, backed by the creativity, resilience, and adaptability of the Vietnamese people have helped the economy recover rapidly in 2020, creating a springboard for strong and sustainable growth in the future.

Thus, Vietnam can truly be seen as a rising star and an attractive investment destination among emerging economies, especially in Southeast Asia.■

Stock market frenzy signals financial capacity intentions

By Celine Luu

A successful listing would further boost the financial foundation of Vietnamese lenders, which might explain the recent rush of banks tapping public funds, switching exchanges, or tying the knot with other suitors.

SeABank – the banking arm of BRG Group's ecosystem – has just confirmed its forthcoming first trading date on the Ho Chi Minh City Stock Exchange (HSX).

More than 1.2 billion shares of SeABank (ticker: SSB) were listed in December and will be officially traded from March 24, with a reference price on the first trading day of VND16,800 (7.3 US cents) per share.

Last week, BAC A BANK also listed 708.5 million shares on the Hanoi Stock Exchange (HNX). Having been conducting transactions on the Unlisted Public Company Market (UPCoM) since 2017, its stocks have officially ceased on the system and shifted to the HNX.

Under Decision No.765/QD-SGDHN enacted by the HNX in late January, BAC A BANK is allowed to list 708.5 million common stocks, with the ticker named BAB.

"The fact that BAC A BANK is officially listed on the HNX is in line with the bank's development roadmap, contributing to reaffirming the prestige and status of the bank on the market, increasing the benefits of all stakeholders, and ushering in a new long-term capital mobilisation channel" the bank said in a press release. "This will also help ensure the bank's information is more transparent and increase its value and ability to approach new investors – this is a firm foundation for BAC A BANK to continue strongly and grow."

On the same boat, Saigon-based commercial bank OCB officially went public on the HSX on January 28, also being the first bank stock to be listed this year.

However, the very first day of going public was not as rosy as expected. The frenzy of broad-based sell-off in Vietnam's stock market has considerably hampered OCB's share price. However, experts believed with the bank's ample fundamentals and potential, OCB will attract the attention of foreign and local investors alike.

A source told *VIR* that OCB is preparing to sell another 10 per cent of its shares to potential foreign investors after Japan's Aozora Bank acquired a 15 per cent stake in a deal worth $139 million in earlier 2020.

This was the first merger and acquisition by Aozora in a foreign market since 2001 and made Aozora OCB's largest shareholder.

In terms of National Citizen Bank (NCB), the bank plans to sell capital to a foreign strategic investor to supplement their financial foundation and widen its network.

Nam A Bank, after filing an initial public offering (IPO) on UPCoM last year, now aims to list on the HSX. The bank also lifts its foreign ownership limit to 30 per cent, seeking to tap into the red-hot international markets.

Vietbank and Saigon Commercial Bank (SCB) also signaled their intention to find interested international suitors who could help them to enhance their financial capacity as well as competitiveness. Previously, SCB was allegedly in the negotiation with an overseas strategic partner after completing the restructuring and listing plan.

Agribank, one of Vietnam's four state-owned lenders, now still pales in comparison with its peers in terms of the growth rate of business operations, total assets, as well as capital adequacy ratio compared to Basel II standards.

The major roadblock lies in Agribank's dependence on the state budget and capital hike, said Tiet Van Thanh, general director of Agribank. The bank has still failed to complete its equitisation tasks and has not yet filed for an IPO. The State Bank of Vietnam (SBV) recently urged Agribank to coordinate with relevant ministries and parties to accelerate its equitisation process, especially issues related to real estate arrangement.

In December, Ho Chi Minh City-based privately-held lender ABBank also filed for an IPO on the UPCoM. ABBank has the ticker code ABB and listed around 571 million shares, equivalent to a market cap of VND5.713 billion ($248.4 million).

MSB, formerly known as Vietnam Maritime Commercial Joint Stock Bank, officially made its debut on the HSX on December 23.

Elsewhere, Petrolimex Commercial Joint Stock Bank (PGBank) began publicly trading on December 24. The bank's foreign ratio is currently capped at 30 per cent in accordance with the SBV's regulations. Despite its eagerness, PGBank has still to tie the knot with an interested lender. In June 2020, the deal between PGBank and HDBank was envisaged to bear fruit after its failed attempt to merge with VietinBank in 2017, according to Petrolimex's deputy general director Luu Van Tuyen. All eyes are now on PGBank's decision at its upcoming AGM this month.■

According to US financial giant JP Morgan, Vietnam banks offer the best combination of growth and return on equity in ASEAN. High nominal GDP growth and resilience in the last 12 months provide visibility on credit and earnings growth over the next few years. JP Morgan expects a 16 per cent earning per share compound annual growth rate for the sector over 2020-2023. This should lead to 8-42 per cent upside for stocks over the course of the year, and meaningfully higher in the next three years.