



**Grant Thornton**

An instinct for growth™

Grant Thornton Vietnam, November 2013

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# Private Equity in Vietnam

## Investment Sentiment and Outlook

### Quarter 4, 2013





# Grant Thornton

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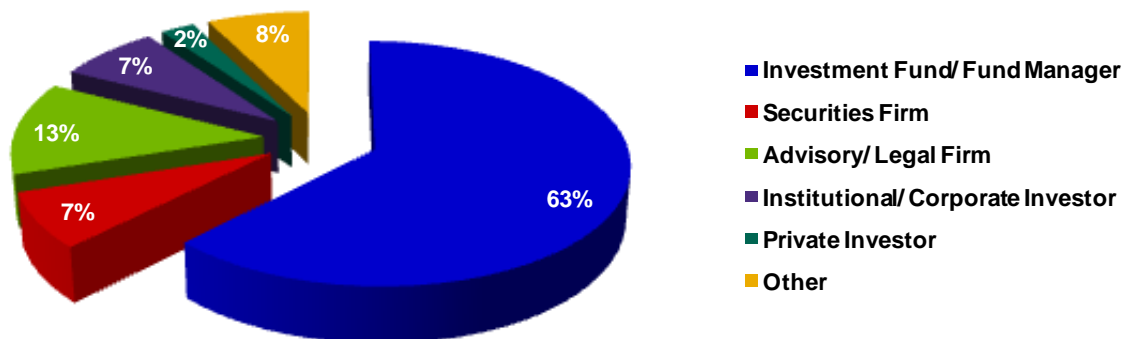
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# About the study

This report is the 10<sup>th</sup> bi-annual report that Grant Thornton Vietnam has released looking at investment sentiment and outlook for the Private Equity sector in Vietnam. The results in this report are based upon survey responses provided by decision makers working in the Private Equity space. Respondents are located both in and outside Vietnam and are involved in Vietnam's Private Equity sector. In this study we have again sought to understand the current sentiments of investors in Vietnam towards the economy generally, their industry preferences and the impediments to investment.

This survey was undertaken in November 2013.

Survey participants - sector analysis



# Foreword

**Year 2013, the Vietnam economy has seen a number of optimistic trends and recovery signals from the economic downturn. In 2014, the Vietnam Government expects to see improved macro-economic conditions to maintain the country's attractiveness and facilitate its strategy of long term economic growth.**

In our 10<sup>th</sup> survey on Private Equity sector carried out in Quarter 2 and Quarter 4 every year, the respondents have shown positive views toward Vietnam's economy. In terms of investment attractiveness, Vietnam is still selected as an attractive destination by the majority of the respondents and 46% of the respondents said they would increase the allocation of investment funds to Vietnam in the next 12 months.

In this survey, newly added sectors include Food & Beverage, Clean-tech, Software and IT. Food and Beverage is assessed as the most attractive industry in Vietnam. In addition, clean-tech is also another attractive industry both in Vietnam and globally where green energy is an urgent demand.

Regarding to the question "how to win a deal in Vietnam", local presence is considered a critical factor while difference in valuation expectation continues to be the first ranked deal breaker.

Vietnam with a reasonable history of private equity investment, we see more private equity funds now paying more attention to add value for the portfolio companies, to improve their performance for better returns.

**Ken Atkinson**  
Managing Partner  
Grant Thornton Vietnam

## Key highlights of the Survey

<b>43%</b>	of respondents have a positive outlook for Vietnam's economy over the next 12 months	<b>↑16%</b>
<b>Private/family owners (34%)</b>	continue to be the major source of deals	<b>Previous survey: 39%</b>
<b>Food and Beverage (34%)</b>	is the most attractive sector for Private Equity investment in Vietnam (newly added)	<b>Previous survey: Healthcare and Pharmaceutical (44%)</b>
<b>Corruption (88%)</b>	continues to be	<b>the most significant obstacle</b>
<b>Local presence (59%)</b>	is the most critical factor	<b>to win deals</b>
<b>5X to 10X EBITDA (53%)</b>	is average exit multiple	<b>Previous survey: 37%</b>
<b>Financial planning, strategic input and governance</b>	are the top 3 areas of hands-on involvement	<b>that PE investors mostly contribute to their portfolio companies</b>

# Economic outlook over the next 12 months

**In this survey, positive sentiment towards the economy achieved the highest response in the last two years at 43%, those with a negative outlook decreased significantly to 13% of the respondents indicating that confidence has returned to the PE investors.**

With the stabilisation measures undertaken by the Vietnam Government, GDP growth was 5.14% in the first 9 months of 2013, with lower inflation and interest rates considered an achievement in the context of the global downturn.

Nevertheless, the economy still faces many challenges and in particular the slow pace of reforming the State owned sector and the challenges being faced by the banking sector. As a result there is still a large portion of the respondents who keep the neutral sentiment toward Vietnam’s economic outlook.

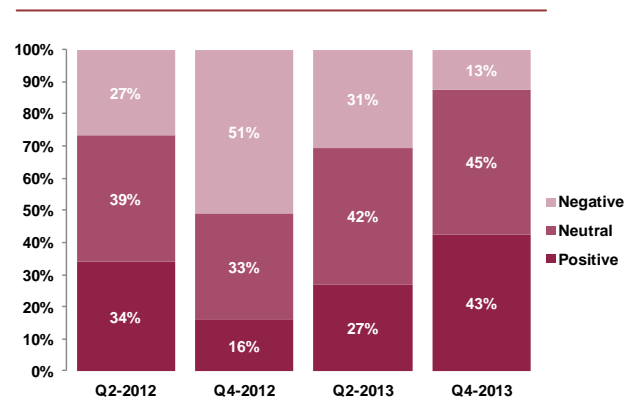
In general, Vietnam’s business environment has improved 5 ranking in 2013 from 75<sup>th</sup> to 70<sup>th</sup> over 148 countries in accordance with the Global Competitiveness Index announced the World Economic Forum (WEF). It is mainly the result of the improved macro-economic environment, the control of inflation at a single-digit rate, improvements to the quality of transport and energy infrastructures, and the efficiency of the local commodity markets.

**“In spite of the achievement in 2013, Vietnam is still facing many challenges for the economy while foreign capital is expected to continue to flow into the country through M&A activities in the coming years, it is critical for Vietnam to capture and maximise the opportunity.”**

**Ken Atkinson**  
Managing Partner  
Grant Thornton Vietnam



**General outlook for the Vietnamese economy over the next 12 months**



# Investment Activities

## 1. Investment attractiveness

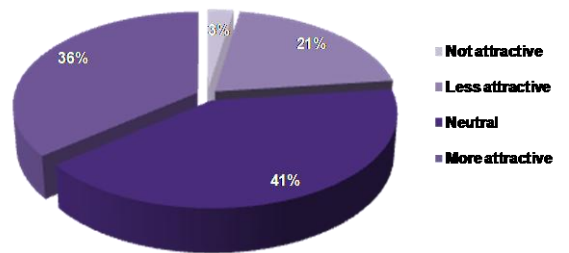
**In this survey, investment attractiveness in Vietnam was selected by 36% of the respondents as More attractive, a decrease from 41% in the last survey.**

The majority of respondents (41%) ranked Vietnam as a neutral attractive destination compared to other countries in the region, showing an increase of 24% from our last survey.

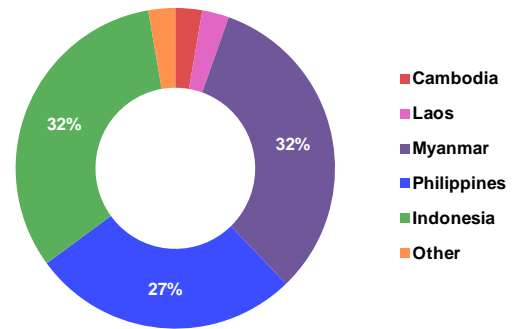
Myanmar and Indonesia were equally selected by 32% of the respondents as alternative investment destinations. While those favouring Indonesia decreased from 48% in the last survey, the respondents for Myanmar increased from 23% in the Quarter 2 2013 survey.

According to the ASEAN Business Outlook Survey performed by Amcharm Singapore, the most attractive countries for new business expansion are Indonesia, followed by Vietnam, Thailand and Myanmar. The main reasons for investment into Asian countries are the potential for business growth and increasing market share.

**Vietnam's ranking in terms of investment attractiveness, compared to other destinations**



**Other markets for investment**



## 2. Investment allocation

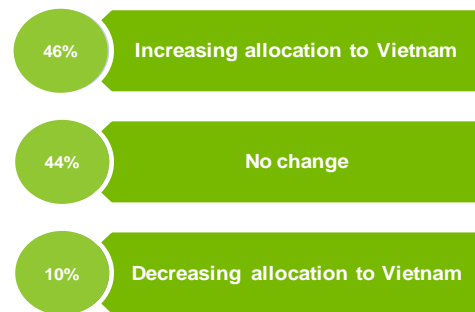
**The majority of participants chose to increase or make no change to their allocation of investment funds to Vietnam.**

46% of the respondents said they will increase their investment allocation to Vietnam whereas 44% of them will keep their proportion stable. Only a minority of the respondents (10%) said they will reduce their portfolio. There is no significant change from our last survey and this result is in line with PE sentiment towards Vietnam's economic outlook.

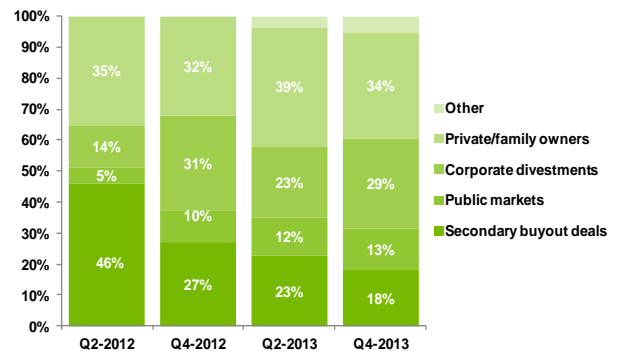
Sources of deals remain consistent over the last surveys, with a slight change compared to our last survey. Private/family owners continue to be the major source of deals with 34% respondents. The proportion of respondents who selected corporate divestment increased by 6%, making it the second major source of deals (29%) whereas secondary buyout deals became the third ranked with a drop of 5% compare to the prior survey.

In term of distressed assets, this was selected by 49% of the respondents that they are not a driver of investment transactions in Vietnam.

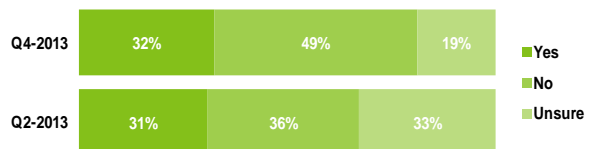
### Allocation of investment funds to Vietnam



### Sources of deals

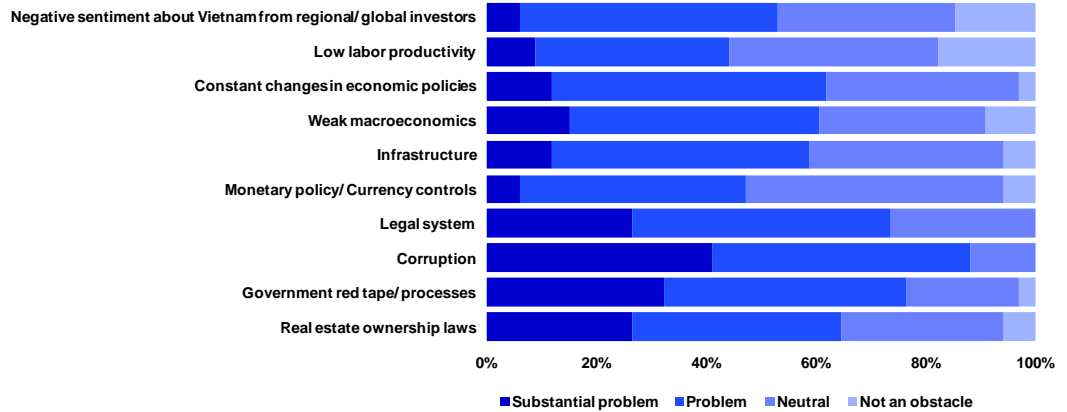


### Are distressed assets a driver of investment transactions in Vietnam?





### 3. Investment obstacles in Vietnam



Corruption is continuously considered as the most critical obstacle amongst PE investors in Vietnam with 88% of the respondents. Following the Anti-corruption Law adopted in 2005, the Office of the Central Steering Committee for Anti-Corruption, the Government Inspectorate, the People's Procuracy, and the State Audit of Vietnam have been trying to fight corruption, however these efforts have not brought about expected results, particularly due to a large implementation gap and lack of enforcement. Ranked as the second obstacle, government red tape/processes selected by 76% of the respondents and these also hinder the anti-corruption effort of the Government.

Results from this survey show a decrease in the number of respondent who considers that Monetary policy/ Currency controls and Infrastructure as investment obstacles by 12% and 8% respectively.

**Important drivers of value growth:** Performance improvement and market growth have been the most important drivers of value growth in the last three surveys which, emphasises their significant importance to investors.

Whilst the role of Performance improvement decreased from 53% to 38% of the respondent, M&A growth is slightly upgraded with 18% of the respondent compared with 13% our the last survey.

#### Important drivers of value growth



#### 4. Factors causing deal failure and success



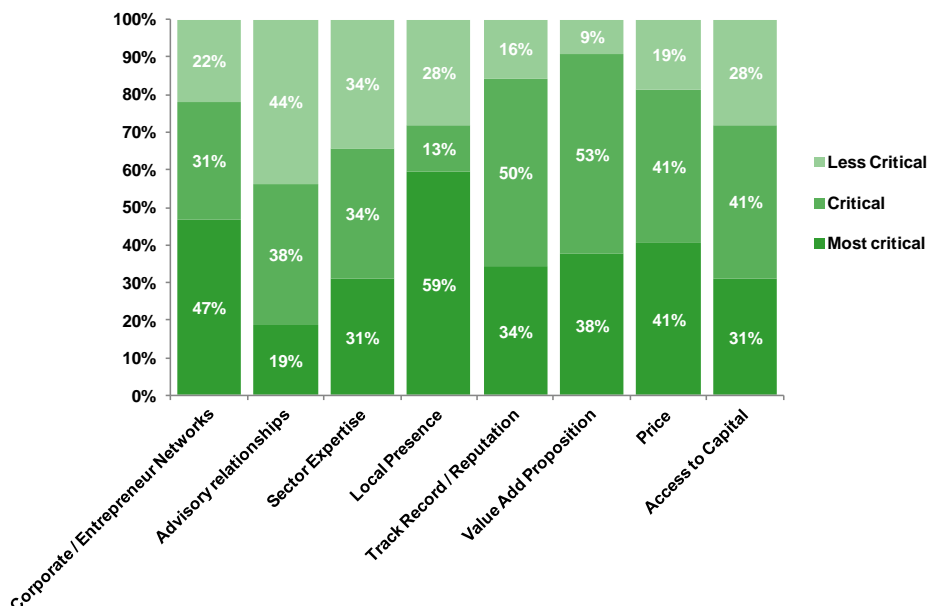
Difference in valuation expectation is again the most significant issue in getting a transaction completed, it has become a critical problem which was selected by 89% of PE participants as the number one deal killer, an increase of 22% compared to our last survey.

Non-disclosure of material items at an appropriate time continues to be ranked as the second major factor causing deal failure, about 52% less than valuation. Normally, investors discover critical issues during the due diligence process and may require additional warranties from the seller thus causing delays in the deal process.

It is acknowledged in the Vietnam market, that it is difficult to find quality PE deals due to lack of available company and market data. As a result, local presence is the most critical factor to win deals in Vietnam, as ranked by 59% of the participants. Combining the responses of "Most critical" and "Critical", Value add proposition is the highest ranked factor in successful deals at 91% of the participants, followed by track record/reputation with 84% and Price with 82% of the participants.

It is becoming increasingly apparent that, private companies expect to receive more support and input from the PE funds rather than financial injection.

#### Important factors in deal closing



# Industry attractiveness

**The Food and Beverage (F&B) industry, which appears for the first time, has been selected as the most attractive industry, according to our participants. The outcome is harmonised with global executives' viewpoints from F&B Study 2013 performed by Grant Thornton International whereas F&B industry has been categorised as “hunger for growth”.**

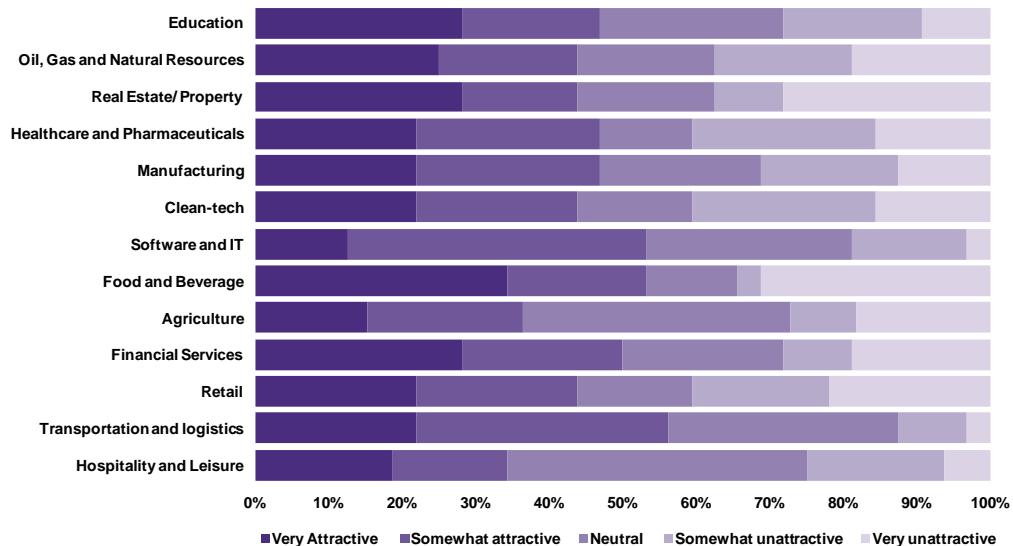
Despite the gloomy outlook, global sector executives are positive about seizing growth opportunities via product innovation or simply leveraging economies of scales to boost sales and reduce production cost. In Vietnam, the lure of 90-million-population remains, investors may seize opportunities either in expansion to maximise cost advantages of the country, develop and enhance distribution channels, or continue to provide essential or traditional product. Clearly those factors have enhanced the optimism about growth in revenue, profit of the PE investors in Vietnam.

Financial services, Real Estate/Property and Education are equally ranked as second most attractive sectors in Vietnam, chosen by 28% of respondents. This survey shows an increase in investors' confidence in the Financial services sector which was ranked at the seventh position in the last survey. This could be the result of the start of the restructuring process of the local banks and the green-light of the Vietnamese Government to extend the share cap limit for foreign investors which has boosted investors' positive sentiment to the sector.

After the long downturn in the market, the Real Estate/Property market is showing signs of being at the bottom. Property prices seem to have bottomed and there is more activity in the market both at an institutional level and with residential buyers.

This is the first time we add Clean-tech to the survey, which have been selected by 22% of the respondents.

## Industry sectors in Vietnam: Most positive or negative for investment



# Hands-on involvement with portfolio companies

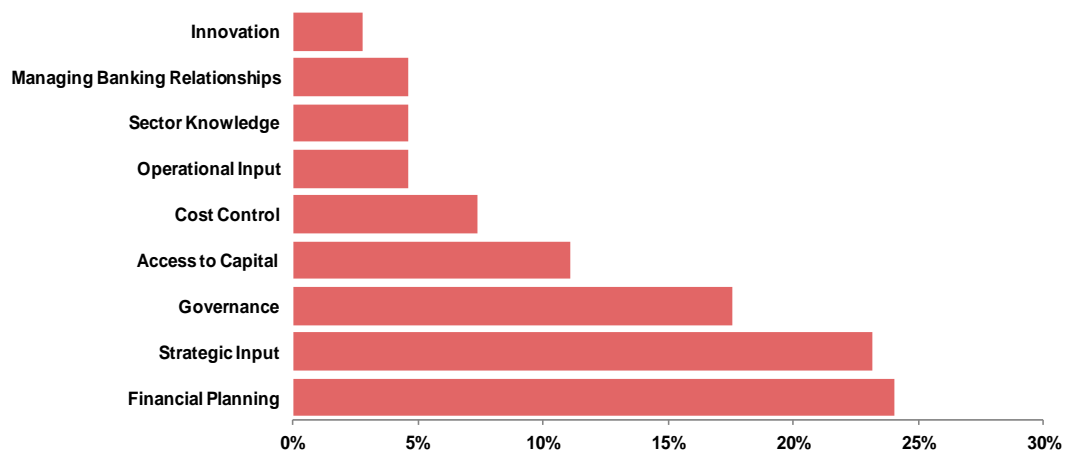
**Previous surveys, have acknowledged that the PEs would increase and/or maintain their involvement in the operation of the portfolio companies, for their long-term growth. This is the first time we specify the areas of involvement that the PEs could add value to the portfolio companies.**

The top three areas indicated include financial planning, strategic input and governance while the other four areas (managing banking relationships, sector knowledge, operational input and innovation) were ranked as the lowest

A financial plan can be a helpful tool for operating and monitoring the business, however, it can also be ineffective because of lack of understanding or lack of attention to detail by private business owners. The financial plan sets the target for the companies to work towards, and helps the company be well-prepared for any shortfall in their cash flow, or capital requirements in advance. As a result, the companies anticipate their results and have a plan to solve any shortage. This was ranked as the 1<sup>st</sup> area that PEs could help add value to the portfolio companies.

Good knowledge of the market trends, business experience, and strategic vision of the PEs would be valuable input for the portfolio companies. However, to make the strategic input really worthwhile for the business, PEs should involve more into the business of the portfolio companies to make the strategy fit to their operation and opportunity.

## Particular areas of hands-on involvement with portfolio companies



# Access to finance

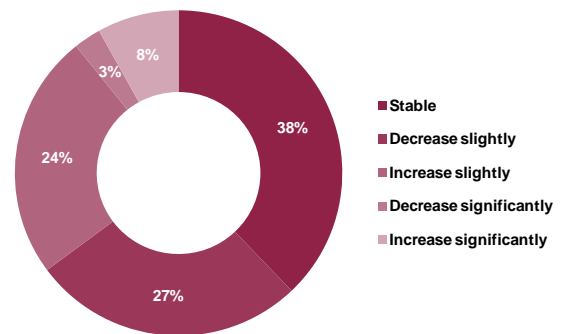
**38% of respondents indicate that cost of debt over the coming year will stay stable. This is a positive signal for the economic recovery in the next 12 months.**

Only 27% of the respondents think the cost of debt will decrease slightly in the next 12 months while it was 77% in our last survey. With the capped interest rate for commercial banks, the State Bank of Vietnam has successfully controlled the interest rate. A preferable lending rate has been granted for specific sectors including real-estate, which could help to reduce the average cost of debt in the market. 24% of the respondents are anticipating the cost of debt will increase slightly in the near future.

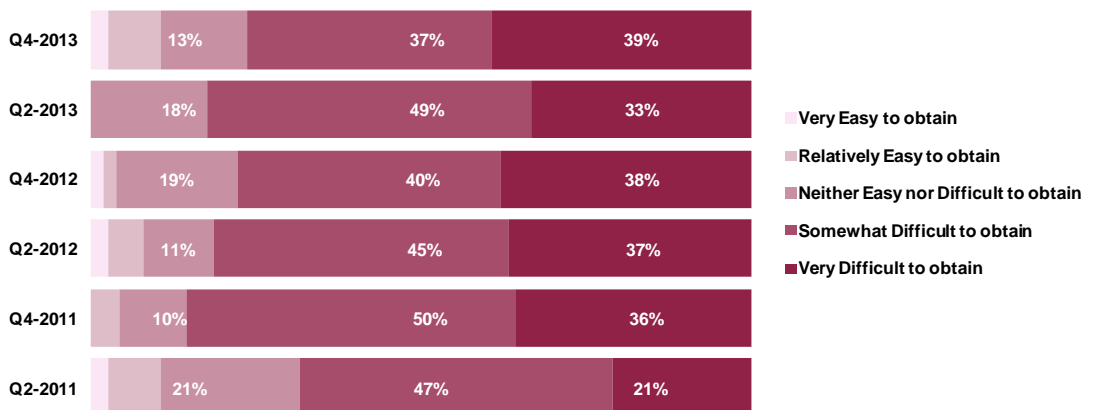
However, having had a high portion of non-performing loans, access to debt finance is still very difficult to obtain or Somewhat difficult to obtain with 76% of the respondents compared with 82% in our last survey.

There is a slight difference in that 3% and 8% of the respondents selected Very easy to obtain or Relatively easy to obtain debt finance while it was zero in our last survey.

The cost of debt over the next 12 months



The availability of debt finance within Vietnam



# Expectations of holding periods for investment

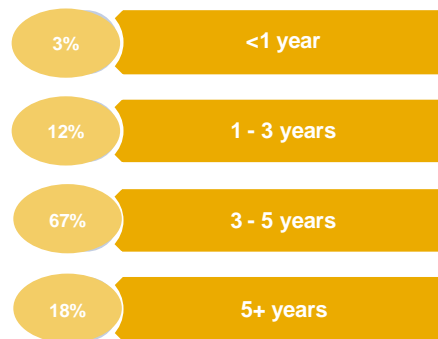
**Most of PE participants (67%) indicate that they stay invested in Vietnamese companies for 3 to 5 years, showing an increase of 14% compared to our last survey.**

The above figures indicate an expectation for short to medium financial return of PE investors. The respondents for long-term investment (over 5 years) have dropped by 10% from 28% to 18% in this survey.

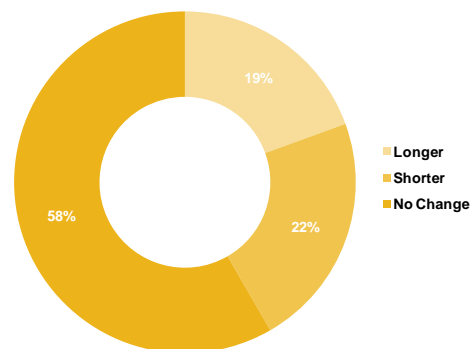
On average, it takes from 6 months to one year to complete a transaction in Vietnam. In case the deal takes more than a year to close, it requires significant patience from both vendor and investor.

Compared with our last survey, 58% of investors believe that transactions would take the same time to complete, an increase of 14%. Respondents for both alternatives Longer or Shorter decreased from 30% and 26% to 19% and 20% respectively.

**The general expectation for the length of time investors plan to stay invested in Vietnamese companies**



**Whether transactions in next 12 months will take a longer or shorter time to complete compared with one year earlier**



**“3-5 year period is long enough for the investor to develop and contribute value to the portfolio company. The private equity funds now pay attention to post-investment value creation to achieve their target return on exit”**

**Alan Dy**  
Audit Partner  
Grant Thornton Vietnam

# Exit multiples for investment in Vietnam

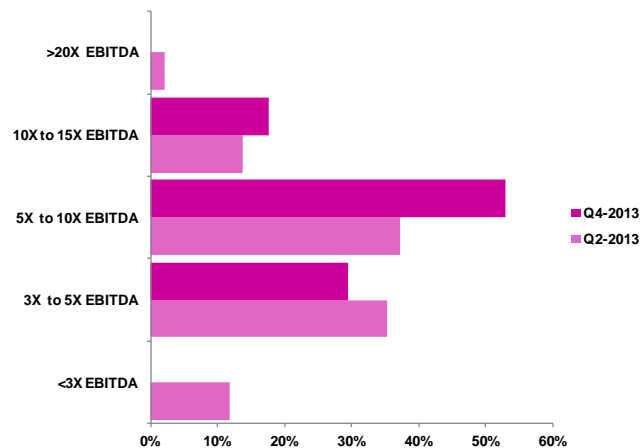
**None of the Respondents chose exit multiple of more than 20X or less than 3X EBITDA in this survey.**

53% of respondents seeing the average exit multiple of their private equity investment in Vietnam at 5X to 10X EBITDA, showing an increase of 16% compared to our last survey.

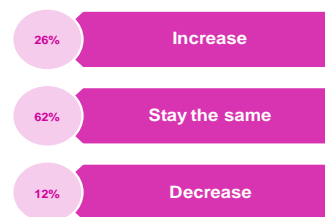
Proportion of respondents who chose 3X to 5X EBITDA has decreased by 6% whereas for those who chose from 10X to 15X EBITDA increase by 4% from our last survey.

62% of respondents indicate that Exit multiples over the next 12 months are expected to stay the same, showing an increase of 7%.

## Exit Multiple for investments in Vietnam



## Change in Exit Multiples over the next 12 months



**“Though EBITDA multiple is quite popular, it is risky to apply it for pricing private companies in Vietnam due to the poor quality of financial information. The investors should have a certain understanding on the company’s accounting system and quality of its financial information prior to making decision on the pricing basis.**

**Nguyen Thi Vinh Ha**  
Advisory Partner  
Grant Thornton Vietnam

# Exit strategies and level of exit activity

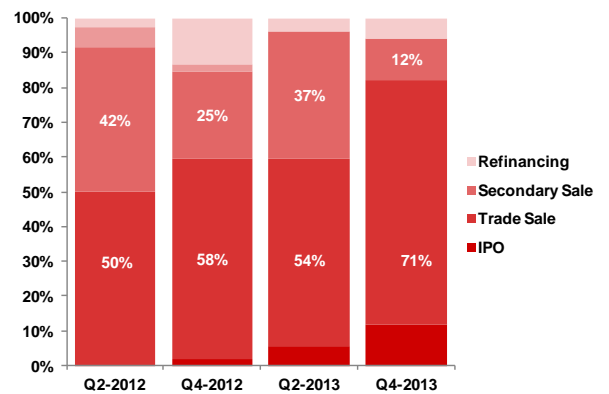
**Trade sale continues to be the most attractive exit strategy for Private Equity Investments in Vietnam at present, with 71% of responses from participants.**

Respondents who chose Secondary sale decreased sharply from 37% to 12% in this survey. In addition, IPO has been selected by 12% of the respondents compared with 6% in the Quarter 2 survey.

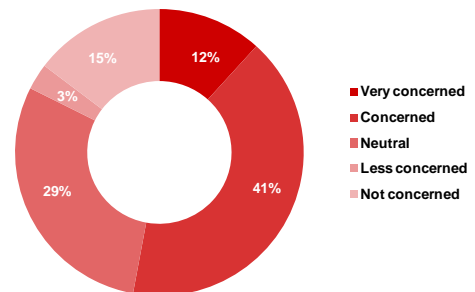
In relation to trapped cash/assets, most of respondents (41%) consider it as a Concern whereas 29% think it is Neutral. This proportion is quite similar to our last survey with 42% and 32% of the respondents for Concern and Neutral respectively.

A half of respondents think that level of exit activity across the market over the next 12 months will increase; this is a slight increase compared to our last survey, moving from second-ranked to first-ranked.

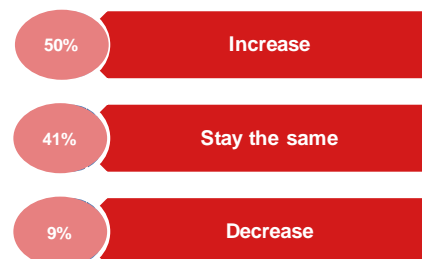
**The most attractive or achievable exit strategy for Private Equity Investments**



**“Trapped cash/assets”**



**Level of exit**





# Key factors to be considered when investing in Vietnam

**There is no significant change in this quarter survey in terms of important factors when investing in Vietnam. The three most important factors are Growth story/forecast, Transparency in business activities and Cash flow. Perhaps the biggest change is to Operational/Cultural fit which dropped by 6%.**

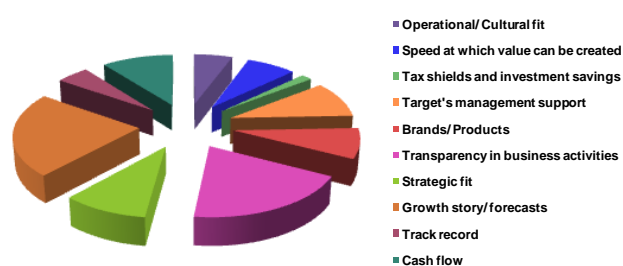
Growth story/forecast is still the most important factor for PE investors when investing in Vietnam, with 23% of respondents, showing an increase of 3% from last survey. Potential growth has been the first consideration of the market players in all sectors.

Transparency in business activities, with a 1% increase keeps its position as the second important factor for PE investors especially in Vietnam where public information and quality of information are relatively limited. Regular reviews and updates of the business activities will help the investors to mitigate their risk.

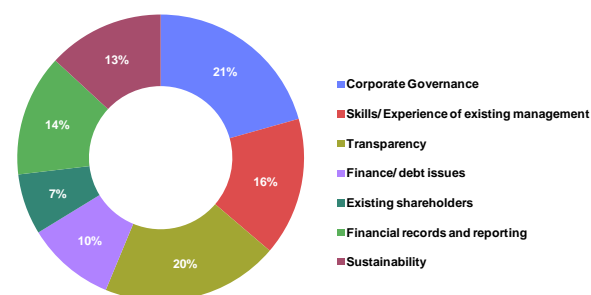
This survey again, sees cash flow as the third most important factor when investing in Vietnam with 11% responses from investors.

Concern over Corporate Governance, Skills/experience of existing management and Transparency are always the three most significant problems when investing in Vietnam. These issues are ranked first, second and third with 18%, 17% and 16% of the respondents respectively.

**The most important factors to consider when investing in Vietnam**



**Most concerning issues when investing in Vietnam**



# About Grant Thornton

## Grant Thornton Vietnam

Grant Thornton Vietnam is an independent member firm within Grant Thornton International and a wholly foreign-owned company. It was established in 1993 as the second international firm to operate in audit and business advisory services in Vietnam, and now has offices in Hanoi and Ho Chi Minh City. Our mission is “To be the leading service provider in the Greater Mekong region, providing distinctive client service and bold leadership through empowered people”.

Whether we are acting as independent auditors, advising on funding a business, looking into tax issues, or restructuring a business, meeting our Clients' objectives and their expectations, through practical solutions based on our practice values of integrity, reliability and personal attention, is our aim.

## Audit and Assurance

In today's ever-changing business climate, effective management of resources and access to information are crucial. Our approach to assurance services is focused on enhancing the value of audit services to businesses and business owners, ensuring the integrity of financial information and helping to reduce compliance costs. Clients benefit from our proprietary audit software to deliver a cost-effective, risk-based, paperless audit.

We provide assurance services to:

- Public companies
- Foreign invested companies
- Locally owned business
- Non Governmental Organisation and donor funded projects.

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Our committed tax professionals can maximise your earnings by combining a comprehensive knowledge of tax regulations and the capacity to plan creatively to reduce your taxes.

We help corporate Clients structure their investments in Vietnam and assist those operating internationally to capitalise on the lowest effective tax rates across multiple jurisdictions. For expatriate and local personnel, we can recommend tax-effective salary packages and advise on offshore solutions. We also help you deal with the tax authorities and provide regular tax updates, training and seminars.

## Advisory services

Our Advisory Services team can help you achieve your objectives by developing effective plans and strategies relevant to your business goals. Whether you seeking to acquire a business, looking to expand, making new investments, undertaking a financial restructuring in a turnaround phase or seeking to divest, our extensive range of services including Lead Advisory, Transaction Support, Business Valuation, Equitisation Consulting, Listing Preparation, Restructuring, Project Finance and Succession Planning will be of benefit to you.

With careful planning and co-ordination, we will not only help make sure your business thrives – we will strive to ensure the chosen strategy is “right” for your business and that you get the best value.

Grant Thornton offers a broad range of Business Risk Services that stand out because we focus on turning compliance obligations, risk concerns and performance questions into opportunities for business improvement.

We work with you to understand your business and the risks to which you are exposed. We detect inefficiencies in existing processes, control systems and technological capabilities and then create sound strategies to mitigate your risk and improve the efficiency of your operations.



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## Contact

### Further Information

If you require further information or assistance with any aspect of commencing, acquiring or doing business in Vietnam, please contact us.

We are always available for an introductory meeting to see how Grant Thornton can assist you, or to simply provide an insight in doing business in Vietnam.

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