Pharma firm state divestments loom

By Bich Thuy

Photo: Le Toan

Major pharmaceutical firms set themselves up for big paydays through the loosening of foreign ownership limits

State divestments at two of Vietnam's leading pharmaceutical corporations are expected to appeal to foreign investors, driven by loosening foreign ownership restrictions and their increasing strength.

Under the newly-released Decision No.1232/QD-TTg, two of Vietnam's major domestic pharma players are unloading all of their state-owned stake.

The state will divest a 35 per cent stake at Vietnam Pharmaceutical Corporation (Vinapharm) in 2017 and another 30 per cent in 2018, while Vietnam Medical Equipment Corporation (Vinamed) will see the state's 20 per cent divestment in 2018. At the end of these divestments, both firms' state holdings will have been completely sold off.

The divestments are said to be promising as Vinapharm and Vinamed – both currently controlled by the Ministry of Health (MoH) – are seen as springboards for foreign investors to cash in on the lucrative local pharmaceutical market.

"As part of foreign investors' increased interest in Vietnam's attractive healthcare, pharmaceutical, and medical devices sector, the state's decision to divest its interest in Vinapharm and Vinamed will undoubtedly attract the attention of foreign investors who are looking at strategic and financial opportunities to gain access to the Vietnam market," Michal Jacob, head of Healthcare and Life Sciences at KPMG Tax and Advisory Limited, told *VIR*.

"Vinapharm and Vinamed are strategically positioned in the market, with robust distribution networks. Vinapharm is one of the few pharmaceutical companies that undertake research and development activities, which act as the main pipeline for drug development," she added.

Multinational corporations (MNCs) often target influential domestic pharma firms to penetrate or expand operations in developing countries. The past buy-ins to Domesco, Imexpharm, Hau Giang, and Traphaco have been typical examples of MNC interest in the domestic market.

Vinapharm and Vinamed are strong in terms of business scale and prestige. The two drug makers already have strategic partners.

Vinapharm, which has 23 member units and associated firms, officially started to trade on the Unlisted Public Company Market (UPCoM) in May. It reaped a consolidated revenue of nearly VND21.25 trillion ($965.9 million) in the first half of 2017, up 10 per cent on-year, while making a pre-tax profit of VND675 billion ($30.68 million), equal to 52.68 per cent of its yearly target.

Backed by the powerful stakeholder MoH (65 per cent) and private firm Viet Phuong Group (17 per cent), Vinapharm has invested in many leading local pharma firms, including Imexpharm, Mekophar, OPC, Vidipha, Vimedimex, and Phytopharma. It also owns land amounting to 11,000 square metres in Hanoi and Ho Chi Minh City.

Vinamed is the authorised dealer and distributor for internationally-known healthcare equipment manufacturers from the US, Germany, and Japan. This firm is also a medical consumable producer, a provider of hospital/clinic IT solutions (providing software tools such as PACS, HIS, RIS, and LIS), and a leading local consultant in hospital building, hospital operation optimisation, and medical equipment portfolio design.

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> Head of Healthcare and Life Scences at KPMG

In addition to their operational strengths, an emerging advantage for both firms is increasing flexibility concerning foreign ownership restrictions in the equitisation of state-owned enterprises (SOEs) and state divestments. This is a big concern among MNCs when they venture into the local market.

"Equitisation can create opportunities for foreign investors to participate in certain sectors which would not otherwise be open to foreign investment, such as distribution of pharmaceuticals, while Vietnam's commitments to the World Trade Organization (WTO) exclude distribution rights," said Vo Ha Duyen, a partner at Vilaf law firm.

But first must come a good-faith implementation of Decision 1232. KPMG's Jacob noted that foreign investor interest will depend primarily on whether the state will make a concerted and transparent effort to apply Decision 1232, as well as the terms and conditions being offered by the state.

Vietnam's pharmaceutical market has emerged as increasingly appealing to foreign investors, given growing demand for high-quality and accessible healthcare services and enforcement of many free trade agreements (FTAs), including the EU-Vietnam FTA, which should further open the market. The local market is expected to double in size by 2020, according to KPMG's forecast.

The sector is expected to witness an increase in the waves of merger-and-acquisition (M&A) transactions involving foreign investors, said experts of the M&A Vietnam Forum 2017.

Currently, about 800 foreign firms are allowed to provide, but not directly distribute, pharmaceuticals in Vietnam.■

- Vietnam spent $5.2 billion on pharmaceuticals in the first eight months of 2017, up 10 per cent year-on-year, according to a newly-released report by Business Monitor International (BMI). The country also spent $16 billion on healthcare, up 7 per cent over the same period of 2016.
- Vietnam will continue to attract multinational healthcare and pharma firms given its medium- to long-term prospects, BMI stated. Key drivers of local market growth include an increased capacity to care for chronic diseases, improved healthcare provision, better insurance coverage, and economic development. Nevertheless, challenges continue to be posed by insufficient distribution networks and a weak intellectual property environment.