Vietnam's privatisation drive 'offers potential for S'pore investors'

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BIG buy-ins by Singapore-listed heavyweights have recently turned the spotlight onto Vietnam's state-owned companies.

With rosy growth forecast for the economy, Vietnam is no stranger to foreign suitors – Singapore companies and funds among them.

The privatisation of state-owned enterprises (SOEs) – dubbed "equitisation" – involves an initial public offering (IPO), then further divestments of the communist Vietnamese government's shares to buyers both domestic and foreign.

The national Electricity of Vietnam Group held a roadshow in Singapore last month to drum up interest among foreign strategic investors for its Power Generation Corporation 3.

Le Hoai Anh, Vietnam country head for Credit Suisse, told The Business Times : "Singapore investors have been very active in Vietnam, both in the private sector and in SOEs. These investors have typically been blue-chip names, and further similar investment from Singapore would be welcome by Vietnam's public and private sectors."

Jardine Cycle & Carriage, for one, has built up an 8 per cent stake in the Vietnam Dairy Products Joint Stock Company, or Vinamilk. Share purchases last November cemented the Singapore-listed company's place as the second largest foreign investor in the country.

It sits behind fellow mainboard stock Thai Beverage Public Company (ThaiBev), which holds about 16 per cent through Fraser & Neave and is looking to enlarge its interest.

ThaiBev also made headlines in December when a joint investment vehicle scooped up close to 54 per cent of Saigon Beer-Alcohol-Beverage Joint Stock Corp, or Sabeco, for more than 109.9 trillion dong (S$6.53 billion).

Vietnam aims to privatise 137 SOEs by 2020 – which would leave 103 businesses fully owned by the state – as it ramps up a drive to boost the national coffers and grow the private sector.

Everything from oil refineries to telcos could be up for grabs. A listing last Wednesday raised US$308.1 million for 20 per cent of electricity company PetroVietnam Power.

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> Joanne Goh, regional equity strategist at DBS Group Research

"We believe there are opportunities for Singapore companies if they have the risk appetite for emerging market assets," said Joanne Goh, regional equity strategist at DBS Group Research.

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There has also been strong interest from capital markets. Hogan Lovells partner Samantha Campbell, who shuttles between Singapore and Vietnam, observed "an incredible appetite" for SOEs at the IPO stage – due in part to the limited size of the Vietnamese stock market and options for investment in liquid securities.

When it comes to which sectors harbour opportunity, VinaCapital chief investment officer Andy Ho noted that annual growth of over 6 per cent bodes well for areas such as consumer goods and infrastructure. "Most basic sectors would do well in this environment," he said.

Vietnam-based fund manager VinaCapital last December flagged Vietnam National Tobacco Corp (Vinataba) and Binh Minh Plastic as some SOEs worth watching.

A December commentary from VinaCapital noted: "We will be particularly interested to see progress on the planned 20 per cent state divestment from ACV slated for 2018." The Airports Corporation of Vietnam stake has been valued at roughly 4.4 trillion Vietnamese dong.

Tan Soon Kim, assistant chief executive officer of government agency IE Singapore, said: "Singapore companies can contribute in our know-how in master planning and smart city initiatives, water treatment, waste treatment and alternative energy sectors like solar and wind. The increasing demand for energy also opens doors for Singapore oil and gas companies, especially in liquefied natural gas."

Still, equitisation can be chancy. Vietnam Rubber Group's IPO last Friday netted US$57.7 million – less than a quarter of the US$272 million target.

And there could be other risks for outsiders. Do Thi Thu Ha, senior partner at KPMG Hanoi, said foreigners might struggle with parts of the process – for example, implementation, timeline and procedures.

Singapore-listed ThaiBev made headlines in December when a joint investment vehicle scooped up close to 54 per cent of Saigon Beer-Alcohol-Beverage Joint Stock Corp for the equivalent of S$6.53 billion. PHOTO: REUTERS

Ms Ha, who is KPMG's lead partner for the SOE sector, told BT: "Outsiders might find it difficult to get approval from their boards because the privatisation procedures are usually not in line with international practice."

Rehan Anwer, Credit Suisse's head of frontier markets, observed that participating investors cannot enter into a shareholder agreement ahead of a share auction – a possible turn-off.

"The main challenge when a foreign company enters into a strategic partnership with a state-owned enterprise is the difference in approach, which can sometimes lead to operational conflict," he said.

"As foreign enterprises generally cannot start with a majority stake, they need to work closely with their domestic partners to get buy-in from them on implementing changes."

Ms Campbell noted that for all the talk of major companies going on the market, "there have been hundreds of equitisations of smaller SOEs which have not attracted foreign interest".

Another danger could come from hefty price tags. CIMB downgraded ThaiBev to "hold" after the Sabeco deal, on its "seemingly pricey" nature.

IE's Mr Tan said: "Some deals could require huge investments, especially those related to energy or telecommunications. These are likely to be beyond the appetite of small investors."

And Ms Goh, of DBS, cautioned: "Investors may want to avoid the pitfall of overpaying for these investments, considering the scarcity premium."