



Privatizing SOEs - Implications for Foreign Investors

KPMG Vietnam Webinar

Thursday, May 18, 2017

2:00 pm Vietnam (GMT+7)

3:00 pm HKT/ 8:00 am BST

Ms. Ha Do, Senior Partner, KPMG Hanoi
Head of State-Owned Enterprises and Infrastructure
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"Privatizing SOEs" Webinar Agenda

14:00 - 14:05 Introductions

14:05 - 14:20 Vietnam's SOE sector; Overview of the SOE equitisation process

14:20 - 14:40 Key considerations for strategic foreign investors in Vietnam

14:40 - 15:00 Question & Answer

Investing in Vietnam Webinar Series, KPMG Vietnam, May 18, 2017

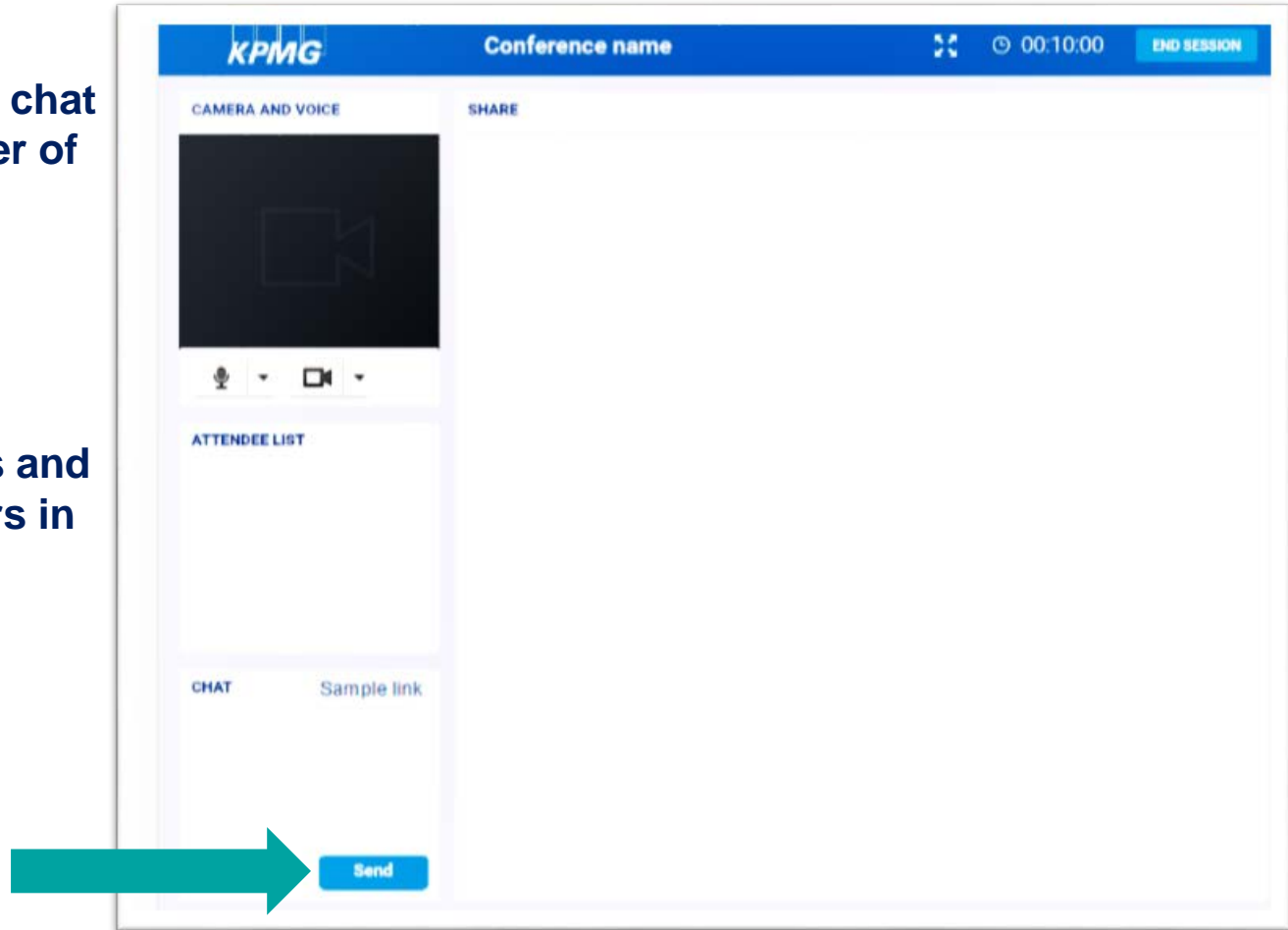


Question and Answer Session

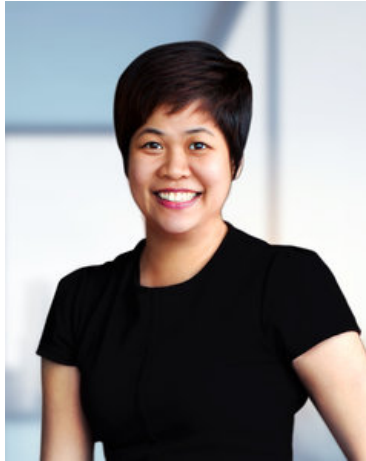
Please submit questions in chat window (bottom right corner of screen) any time.

Don't forget to hit SEND.

I will compile the questions and submit them to the speakers in the last 20 minutes of the webinar, as time permits



Key Presenter



Ha Do **Senior Partner, KPMG Hanoi office** **KPMG Vietnam**

Ha is the National Leader of KPMG's State-Owned Enterprise practice, where she is responsible for developing and implementing strategies that support the provision of services to, and development of, the SOE sector. She is also the Head of Infrastructure sector at KPMG in Vietnam.

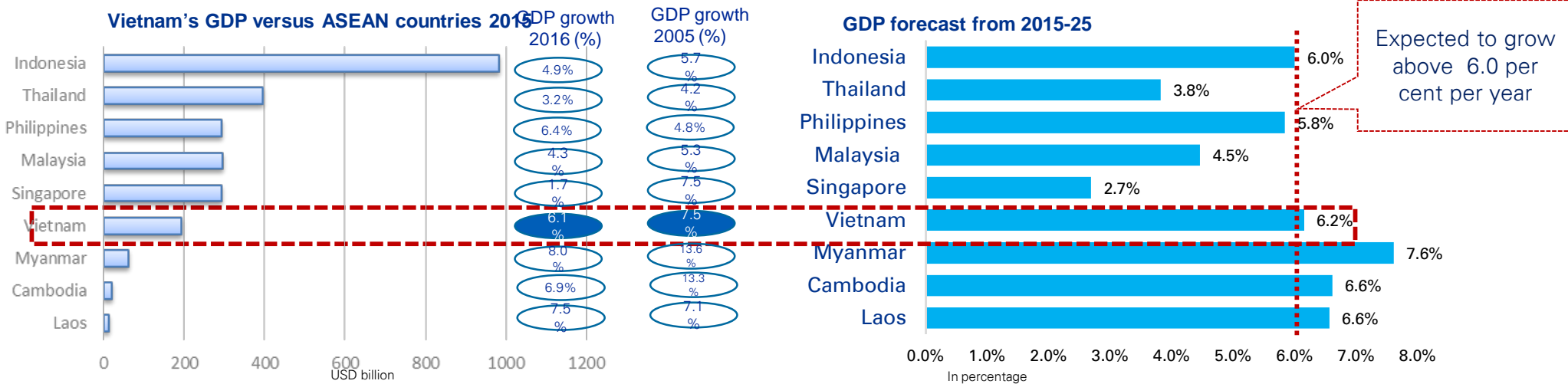
Ha has 18 years of extensive experience in providing tax and consulting services to a number of large and leading multi-national corporations in Vietnam.

State-Owned Enterprises | Vietnam

Overview

Vietnam's GDP grows steadily

Vietnam's GDP is expected to grow at approximately 6% per year till 2025, one of the fastest growing economies in the region



Sources: Business Monitor International

- ❖ SOEs make up 0.2% of total number of enterprises in Vietnam,
- ❖ SOEs contributes 40% of GDP & 15% of all enterprise employees.

State-Owned Enterprises | Vietnam

Regulatory Info

- Law on Enterprise
- Decree 59/2011, Decree 189/2013, Decree 116/2015 on converting SOEs into shareholding companies
- Decree 81/2015 on publishing information of SOEs
- Decision 58/2016 on SOE categories and proposed state ownership ratios in various SOEs/sectors
- Decree 59/2011 is under review for revision

Statistics*

2,000 – 3,000

Number of enterprises where government has a majority stake, depending on public figures;

781

SOEs with 100% government ownership;

1.5 million

Number of SOE employees

15%

Percentage of all enterprise employees that work at SOEs

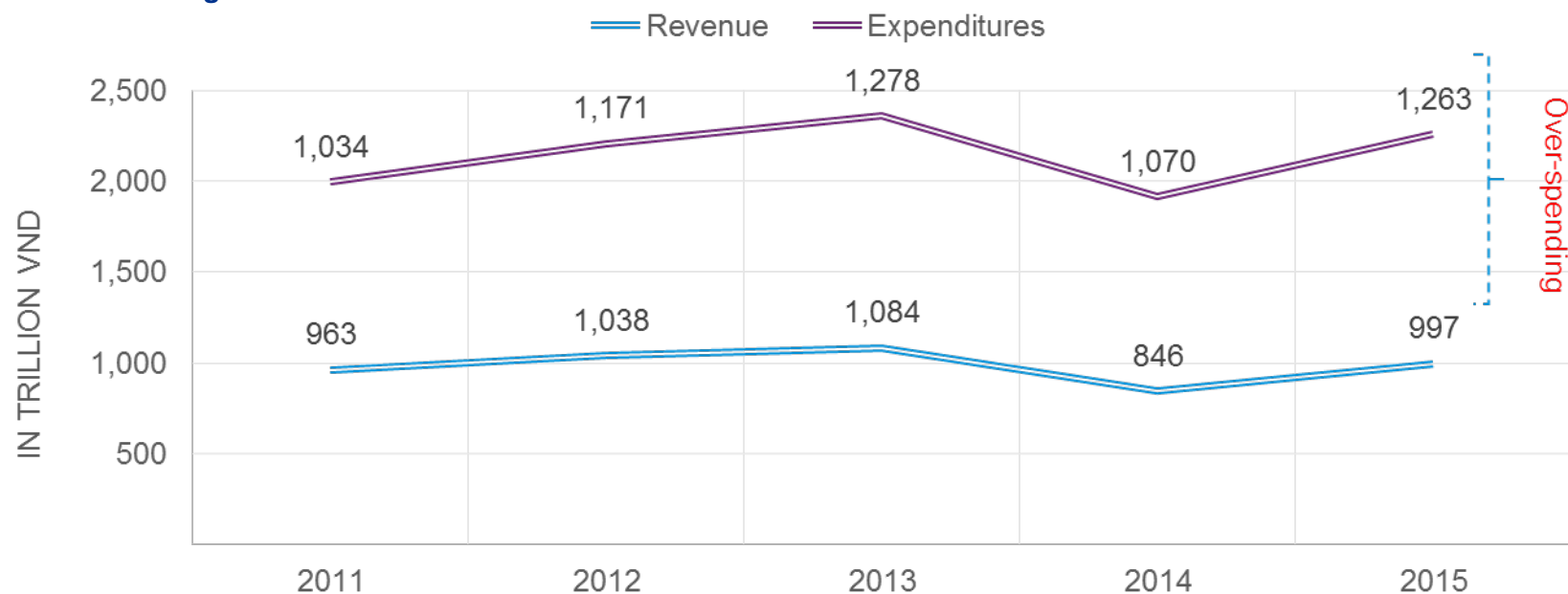
*Source: 2015 Central Institute for Economic Management



Driving Factors to Privatize SOEs

The gap between State Budget revenue and expenditure is increasing over the years and the Government is facing a constant fiscal deficit

Current State Budget Balance situation

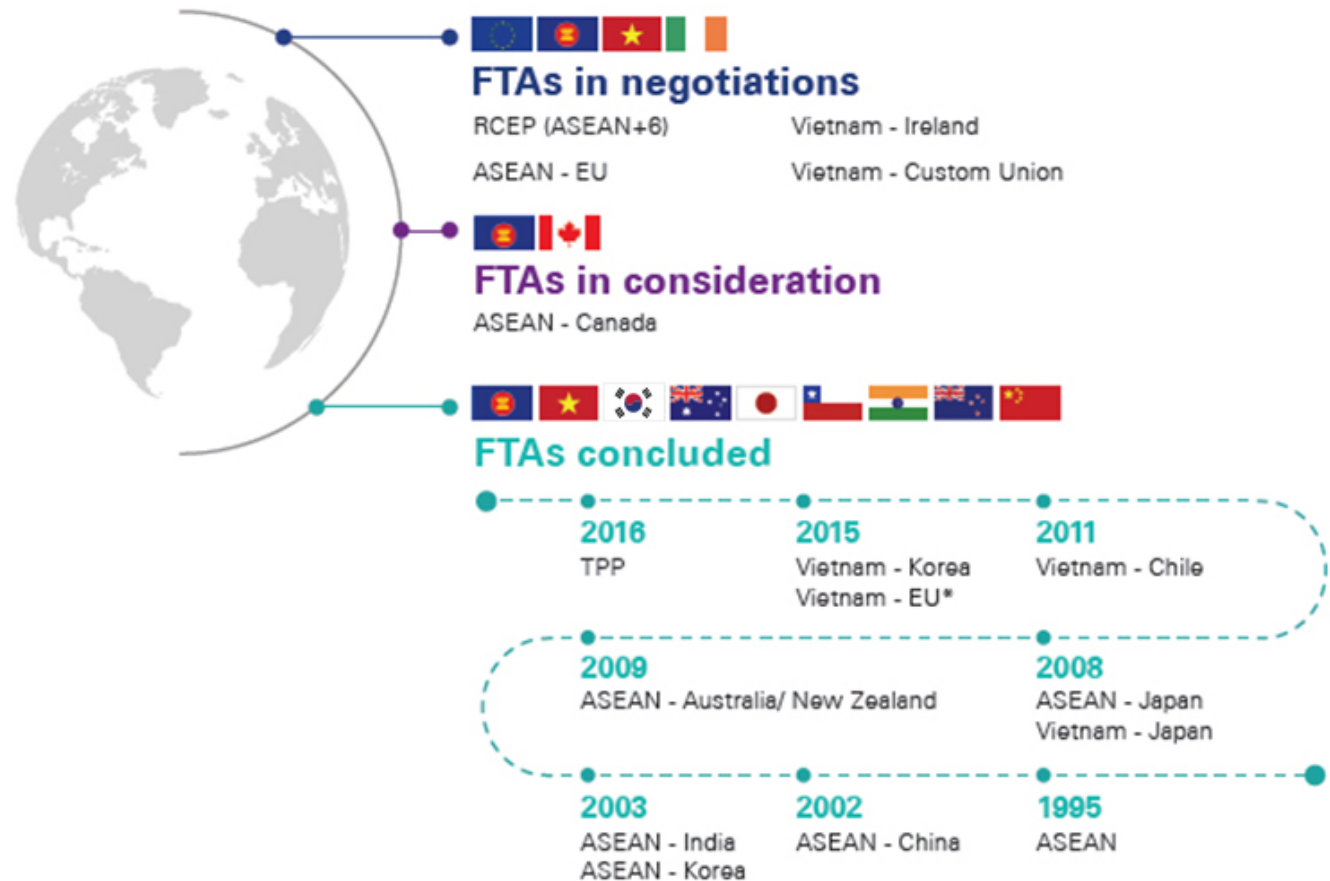


Source: Ministry of Finance, General Statistics Office of Vietnam

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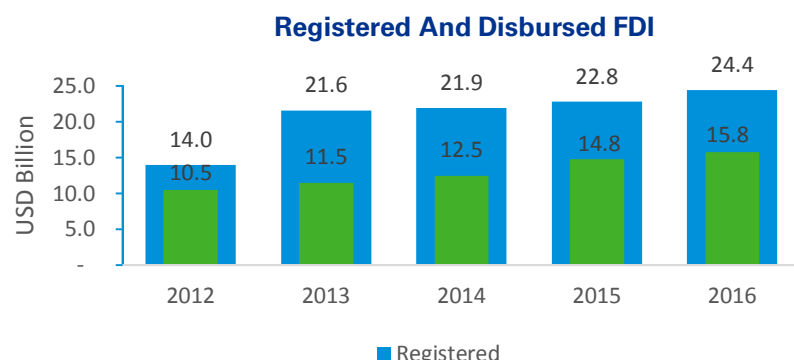
Driving Factors to Privatize SOEs

The push to integrate into the **global economy** as well as participation in **regional free trade agreements** are advancing structural reform of the public sector and reducing protectionist tariffs and duties.



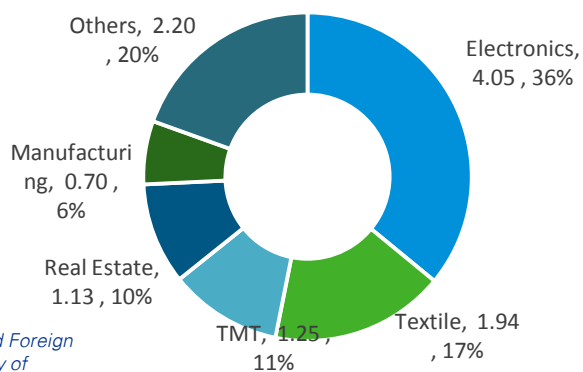
Driving Factors to Privatize SOEs

Growth of GDP has been bolstered by **domestic demand and manufacturing exports**. The influx of FDI attracted by Vietnam's participation in the FTAs and TPP process also are transforming sectors previously occupied by SOEs.

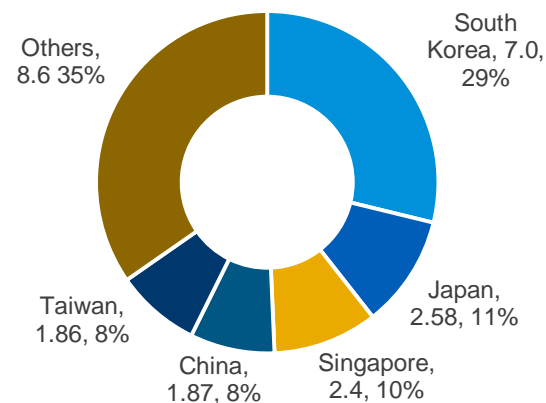


Disbursed capital increased by 41% from 2012 to 2015

New Registered FDI By Sectors In 2016 (USD, Billion)



Top 5 Countries for New FDI In 2016 (USD, Billion)



Source: General Statistics Office, and Foreign Investment Agency – Ministry of Planning and Investment

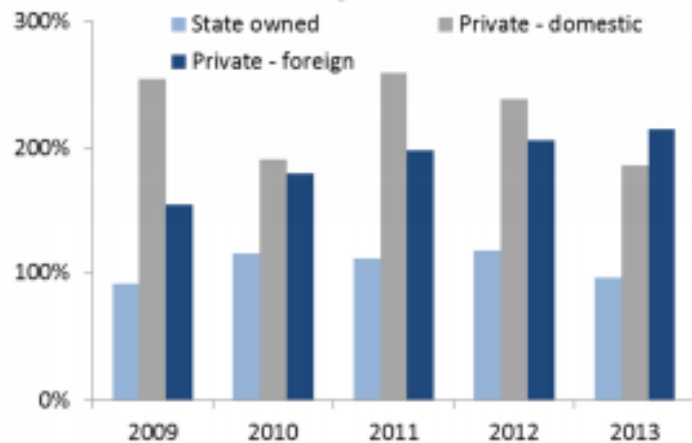


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Driving Factors to Privatize SOEs

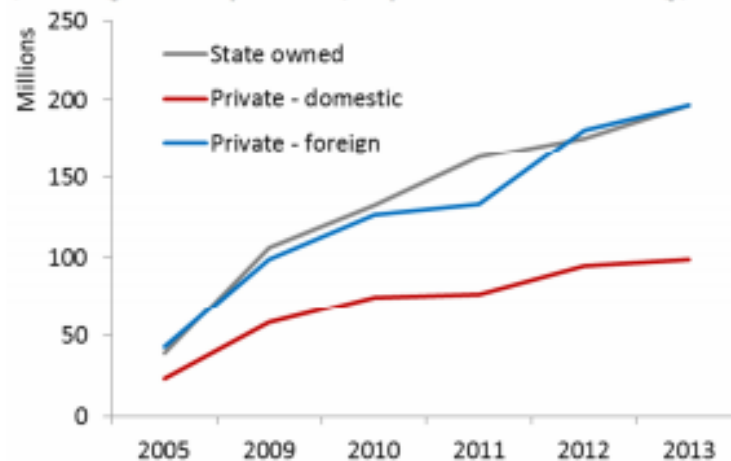
Performance of SOEs

(net turnover as % long-term assets)



Source: General Statistics Office, Yearbook (various)

(average salary of employees, millions dong)

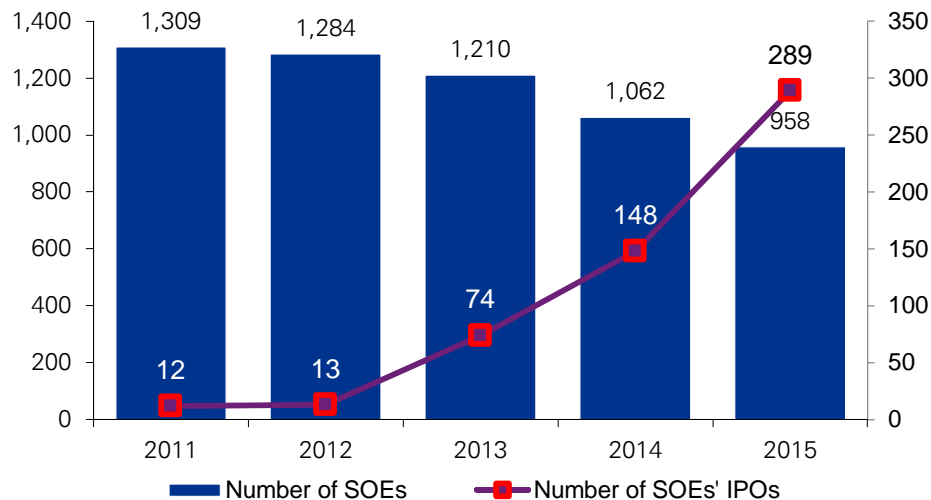


Source: General Statistics Office, Yearbook (various)

Source: ADB Report: "State-Owned Enterprise Reform in Viet Nam: Lessons Learnt and Future Directions - Background paper prepared for the Viet Nam Public Finance Partnership Group High Level Meeting, 1 July 2015"

Equitization of State Owned Enterprises

Number of SOEs & SOE IPOs in Vietnam



The number of SOEs in Vietnam has decreased significantly during the period of 2011 – 2015 from 1,309 to approximately 958 SOEs, with plans to reduce to 190 SOEs by 2020 according to the equitization plan of the government.

Source: Stoxplus

Progress of Divestment from SOEs

- **2011-2015: almost 600 SOEs were equitized**, or 96 per cent of the targeted number. The number of SOEs has since fallen from some 6,000 to over 700 during the past 15 years. (Vietnam News).
- **2016-2020: the Government will hold 100% stake at 103 SOEs, while 137 others will be equitized.**
- Within Q1 2017, Vietnam State investment arm SCIC has **divested 9% of its capital from Vietnam Dairy Products JSC (Vinamilk)**, a leading dairy producer in Vietnam with annual revenue turnover in 2016 of about USD1.7bn.

SOEs | Proposed Divestment Ratios

State to retain 100%

- Viet Nam Air Traffic Management Corporation (“VATM”)
- Vietnam Railways Corporation (“VRC”).
- Vietnam Natural Resources and Environment Corporation
- Vietnam Lottery (VietLott)
- Vietnam Construction Bank (“CB”), etc.

State to retain 65% or above

- PetroVietnam Exploration Production Corporation (“PVEP”)
- Vietnam National Coal and Mineral Industry Holding Corporation (“Vinacomin”) – Parent company
- Bank for Agriculture and Rural Development (Agribank), etc.

State to retain 50%-65%

- Vietnam National Tobacco Corporation (“Vinataba”)
- Vinafood 1
- Vinafood 2
- VNPT Parent Company
- Mobifone
- Vietnam National Coffee Corporation (“Vinacafe”), etc.

State to retain under 50%

- Genco 1, 2, 3 under Vietnam Electricity (“EVN”)
- Song Da Corporation
- VTV Cab
- Vietnam Shipbuilding Industry Corporation (“SBIC”), etc.

Source: Decision 58/2016/QĐ-TTg



Vietnam's Equitization Process and Key Considerations for Strategic Investor

18 May 2017

MS. HA DO

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Head of State-Owned Enterprise and Infrastructure Practice

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Vietnam Equitization Process (1/3)

- Vietnamese Government launched its initial pilot program to privatize State-owned Enterprises ('SOE') or the '**equitization**' process in 1992.
- On 18th July 2011, the Government promulgated **Decree 59/2011/ND-CP** on 'Conversion of Enterprises With 100% State-Owned Capital Into Shareholding Companies' ("Decree 59"), which later on had subsequent amendments
- **Objectives of equitization:**
 - Convert enterprises in which it is unnecessary for the State to own 100% capital into enterprises with multiple owners;
 - Mobilize capital from both domestic and foreign investors;
 - Increase financial capacity; and,
 - Renovate technology and managerial methods in order to raise the efficiency and competitiveness of the economy (Article 1 of Decree 59)



Vietnam Equitization Process (2/3)

- The authorized body shall fix the **appropriate method of share sale**
 - The Ministry of Industry and Trade, Ministry of Finance, Ministry of Labour, the Ministry of Natural Resources and Environment, Ministry of Planning and Investment, the State Bank of Vietnam, Vietnam Social Insurance, the State auditor and other relevant bodies shall be responsible to guide implementation
- If an enterprise undergoing equitisation has more than VND 30bn (c. a. USD 1.2mn) in total asset or state owned capital of more than VND 10bn (c.a. USD 0.4mn), it must hire an **third party institution with a valuation function to conduct enterprise valuation.**



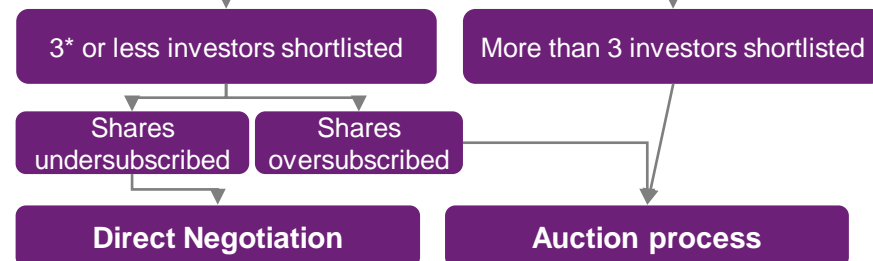
Vietnam Equitization Process (3/3)

Sample Strategic Investor Selection Process for SOEs

- 1 Registration by investors
- 2 SOE review and short-list investors
- 3 SOE submits equitization plan including the short-list of investors
- 4 The Government reviews and approves the equitization plan
- 5 SOE officially invites investors to participate in the offering process

- Due Diligence / Negotiation -

- 6 Investor submits the share subscription form
- 7 SOE issues the offering regulation ([reserve price]) and investors deposit an amount not exceeding 10% of subscription amount
- 8 SOE selects investors through direct negotiation and/or auction process



- Bids selected in descending order until all shares are sold

*. Maximum number of strategic investors allowed to purchase shares

Key Considerations for Strategic Investors (1/4)

Key Considerations

Equitization process

- Stakeholders of the Seller
- Process considerations – Overall uncertainty of the process
- Process considerations – Restricted process and information availability
- Process considerations – Valuation

Key Considerations for Strategic Investors (2/4)

Key Considerations

Process Management

- Timeline Management
- Investment Story

Key Considerations for Strategic Investors (3/4)

Key Considerations

Business Plan and Pricing

- Overview
- Scenario Analysis
- Synergies
- Working Capital and Capital Expenditure

Key Considerations for Strategic Investors (4/4)

Key Considerations

SPA / Negotiation

- Overview
- SPA Terms and Conditions – Representations and Warranties
- SPA Terms and Conditions – Veto Rights, Rights of First Refusal / Drag-along / Tag-along



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Best Practices: Deals in Vietnam

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