



# The return of SOE equitization – Is it time to invest?

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**Hanoi, Vietnam**

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15 years ago...

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and Hop Dang



# Equitization taking off?

**SOE  
equitization  
to fuel M&A  
activity**

**More than 400 SOEs to  
be equitized by 2015**

**Int'l firms eager for stake in Vietnam's  
MobileFone ahead of 2015 IPO**

**Vietnam Predicted to see  
Rise in IPOs for 2014 as  
equitization continue**

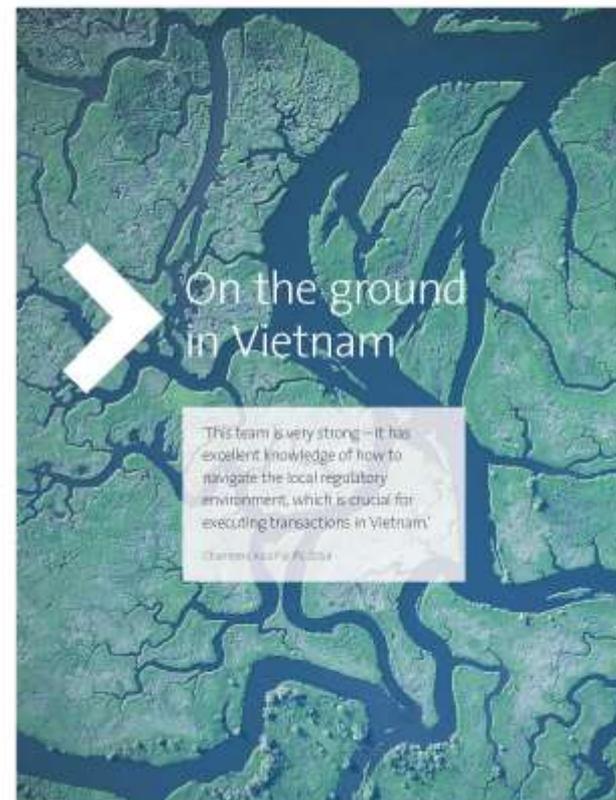
**Vietnam  
Airlines IPO  
To Finally  
Go Ahead**

# Equitization taking off?

Allens > Linklaters



Allens > Linklaters



Allens > Linklaters



# Agenda

1. The equitization momentum
2. Old issues
3. New solutions?
4. Same same but different?
5. Alternative investment options

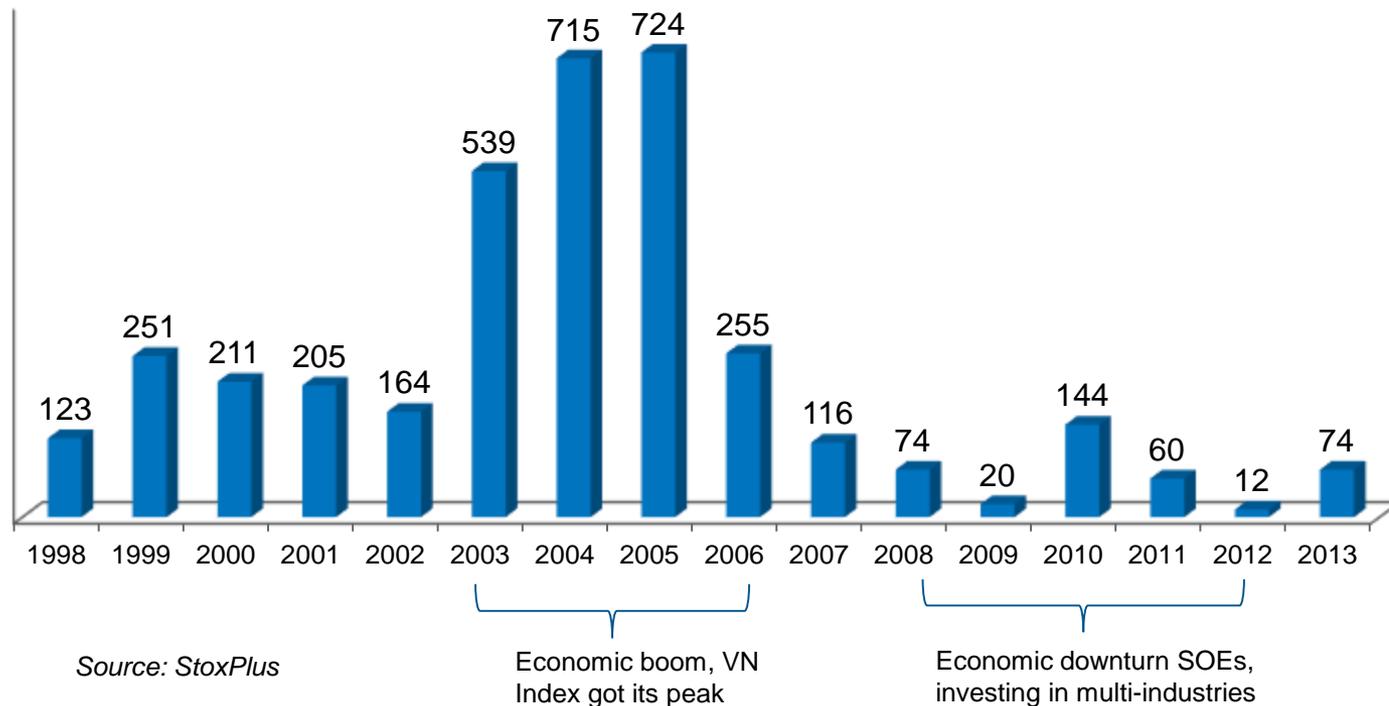


## What is 'equitization'?

- A form of privatisation of state-owned enterprises (**SOEs**) by turning it into a **shareholding company**.
- Only **partial privatisation** as in a large number of cases, the State will retain majority ownership stake.

# Equitization history

Number of equitized SOEs  
in the last 15 years

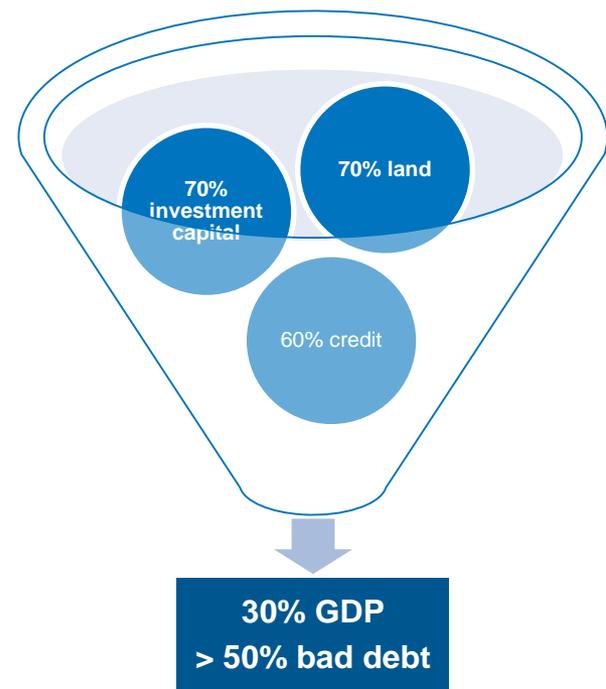


# The equitization momentum – why now?

*Equitization is ‘the key political mission that needs to be urgently and determinedly accomplished.’*

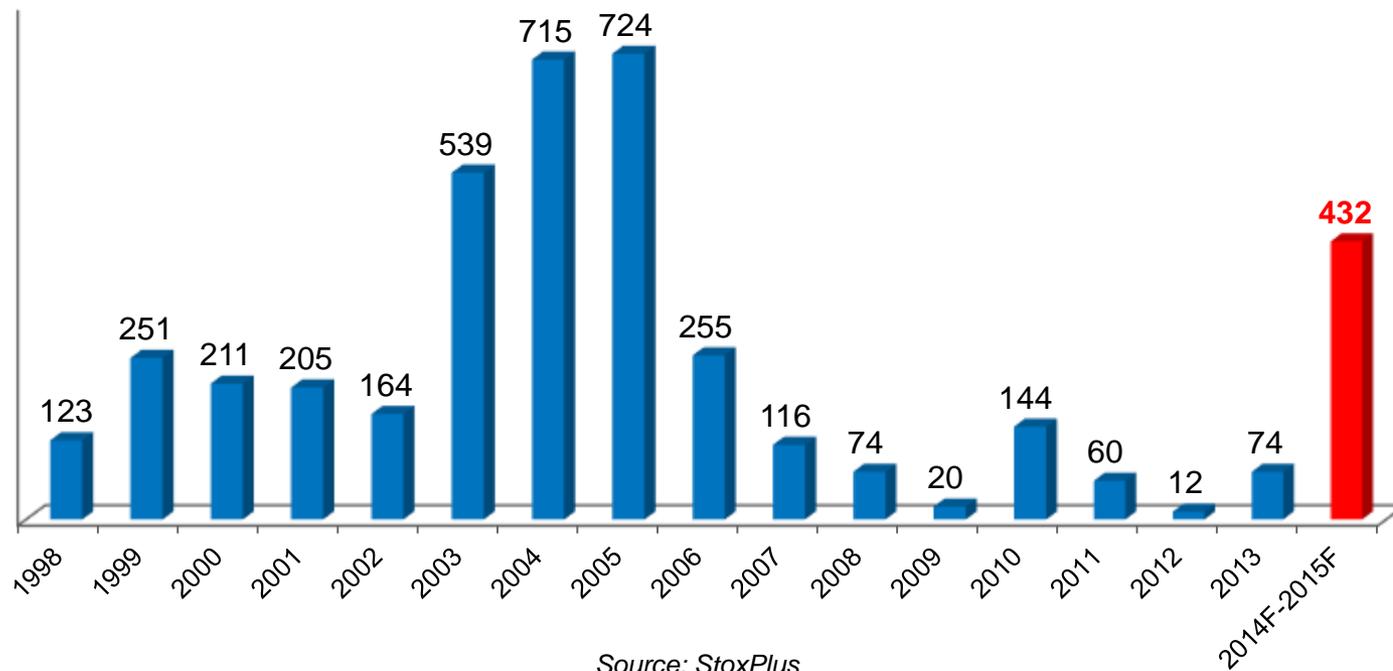
- Restructuring of Vietnam economy
- Improved market conditions
- International pressure

## SOE sector performance



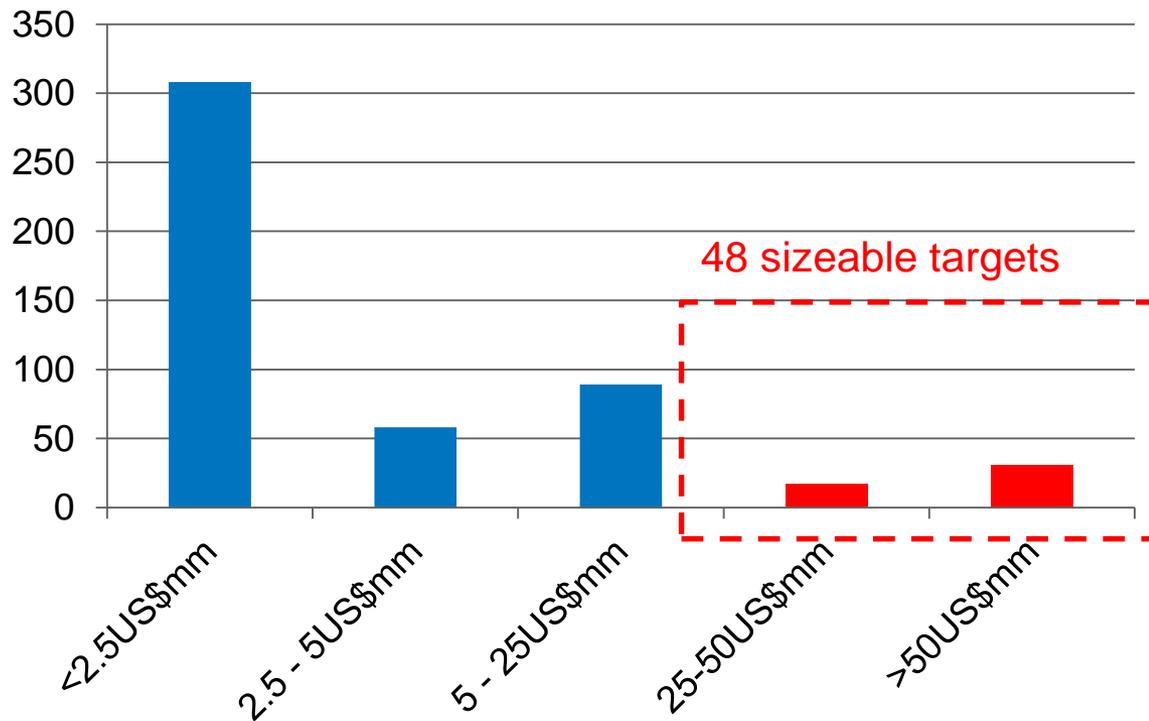
# The ambitious goal of 432 SOEs

432 SOEs by end of 2015 = 1 SOE per day!



# Not all 432 are attractive

SOEs by charter capital



## 21 major IPOs in 2014:

- Only 6 sold 100% shares
- 8 did get more than 10% subscribed
- 3 sold only 3-4% shares

Source: StoxPlus

# List of top SOEs in the pipeline

No	Logo	Name	Sector	Charter Capital (US\$ mn)	% IPO	IPO Size (US\$m)	Commentaries by StoxPlus
1		Vietnam Airlines	Airlines	500	25%	685.0	Vietnam Airlines is the largest airline operator, with 60% market share. Valuation by Morgan Stanley is estimated at US\$2.74bn. Even the total equitized percentage is 25%, only 3.46% is sold to the public. Foreign strategic investors (likely to be members of Sky Team Alliance) will own 10-15% stake. Hence, foreign investors are not so keen to participate in this deal, as the public offering is small and investors cannot take management control. The IPO is planned for Sept 2014.
2		MobiFone	Telecom	N/A	N/A	N/A	Among the upcoming IPOs, MobiFone seems the most wanted. The IPO is planned for end of 2014. In 2009, Credit Suisse valued MobiFone at US\$2bn, but more recently HSC valued MobiFone at US\$3.4bn, or 12x P/E. MobiFone is said to already have a list of 6 potential strategic investors in the pipeline, including Orange France Telecom ("OFT"), Orascom Telecom Holding (Egypt), and Etisalat (Saudi Arabia). Although Mobifone is not on the list of 573 IPOs planned, its IPO is guaranteed within 2014 -2015.

Source: StoxPlus

# List of top SOEs in the pipeline

No	Logo	Name	Sector	Charter Capital (US\$ mn)	% IPO	IPO Size (US\$m)	Commentaries by StoxPlus
3		SATRA	Food Retailers & Wholesalers	180.0	Less than 50%	N/A	Sector average annual growth rate of 6.5% over the past 5 years. Satra Food owns several famous food manufacturers & stores (Vissan, Satramart, Satrafoods...). In 2013, the Government approved IPO plan of Satra Corporation within 2015 – 2016.
4		VIETNAM NATIONAL SEAPRODUCTS CORPORATION LIMITED	Farming & Fishing	36.9	Less than 50%	N/A	Sector average annual growth rate of only 4.2% over the past 5 years, however the sector has untapped potential considering geographical advantages of Vietnam.
5		HAPRO GROUP	Food Retailers & Wholesalers	20.5	Less than 50%	N/A	Sector average annual growth rate of 6.5% over the past 5 years. Hapro Group is famous for several store brands such as HaproMart, HaproFood...
6		PETROVIETNAM POWER CORPORATION	Electricity	655.3	25%	N/A	Sector average annual growth rate of 9% over the past 5 years. PV Power is 2 <sup>nd</sup> largest electricity provider after EVN.

Source: StoxPlus

# List of top SOEs in the pipeline

No	Logo	Name	Sector	Charter Capital (US\$ mn)	% IPO	IPO Size (US\$m)	Commentaries by StoxPlus
7		PTFINANCE	Consumer Finance	25.0	Over 50%	N/A	Average annual growth rate of Financial sector (Finance, banking & insurance) was 7.5% over the past 5 years. As a non-bank credit institution of VNPT, however, PTFinance has not performed efficiently considering its advantages, this raised the opportunities for an expert strategic investor.
8		SJC SAI GON	Personal Products	34.3	Over 50%	N/A	N/A
9		SAIGON REAL ESTATE CORPORATION	Real Estate	105.3	Less than 50%	N/A	N/A
10		HANDICO	Construction & Materials	93.0	Over 50%	N/A	N/A



# What make them attractive?

- Prime State assets
- Profitable businesses
- Dominant market positions
- Significant pool of prime real estate assets



# BaoViet and Vietcombank Era Issues

# The equitization process

## Formation

- **Steering Committee** and Support Team set up
- **Documentation**: legal, financial, land, employees, valuation method
- **Valuation**: appointment, conduct, approval, declaration of enterprise value.
- **Approval of equitization plan (EP)**: capital structure, form of equitization methods, reserve price, draft charter, employee, business plan, land usage

## Implementation

- One of the three methods: **IPO, direct agreement** with strategic investor(s), or **underwriting** as specified in the EP.
- If unsuccessful IPO, may readjust initial price but not lower than par value for second round of public offering by direct agreement.
- Subsequent sales of shares at discounted price to employees and trade union (if any).

## Completion and post-equitization

- **Completion**: first GMS, business registration, preparation of financial statements, handover.
- **Post-equitization**: register as public companies, listed within one year if satisfying listing conditions.

# Four or five buckets of shares?

- **State** retention
- **Public** via IPO auction that would have a floor price
- **Employees** via statutory rights 100 shares per year of service at 40% discount and **trade union**
- **Strategic investor**
- **Others** (eg 'domestic partners', 'convertible bond holders')?

# Requirements for strategic investors

- Is NOT just someone taking a large stake with a view to making a killing on listing
- General requirements
  - have sufficient financial capacity
  - undertake to stay closely connected with the long-term interests of the target company
  - assist the target company to improve its management and operation
  - not to transfer their shares for 5 years after equitization

# Interesting equitizations





# Many laws – seven incarnations

1. Decree 28-CP dated 7 May 1996
2. Decree 44-1998-ND-CP dated 29 June 1998
3. Decree 64-2002-ND-CP dated 19 June 2002
4. Decree 187-2004-ND-CP dated 16 November 2004
5. Decree 17-2006-ND-CP dated 27 January 2006 amending Decree 187
6. Decree 109-2007-ND-CP dated 26 June 2007
7. Decree 59-2011-ND-CP dated 18 July 2011 as amended by Decree 189-2013-ND-CP dated 20 November 2013

# Bao Viet and VCB Era Issues: solved or not?

	Issue	Then (2007)	Now	Rating
1	Strategic investor's ( <b>SI</b> ) stake	<ul style="list-style-type: none"> <li>PM announces state retentions capped at 75%</li> <li>SIs + employees +oddments limited to half of the shares being sold (BV 65% VCB 70%)</li> </ul>	[Chi and Bill to refine text in this table]	 
2	Control	<ul style="list-style-type: none"> <li>Basically impossible for a SI to secure enough shares to veto a 75% let alone 65% vote at GM under LOE</li> <li>Can get some control through power sharing under SHA/Charter</li> </ul>		
3	Prime Minister ( <b>PM</b> ) flexibility	<ul style="list-style-type: none"> <li>D109 varied D187 to allow PM to vary the 50/50 ratio restricting SIs amount of shares</li> <li>Conflicting law on his power to allow SS to pay less than IPO average price</li> </ul>		

# Bao Viet and VCB Era Issues: solved or not?

	Issue	Then (2007)	Now	Rating
4	Price	Subscription Agreement of SI signed before public auction must agree to pay the average price achieved at auction		 
5	Valuation	<ul style="list-style-type: none"> <li>Floor price per share for auction need not be valuation divided by share number but no one would dare to propose a floor less than one matching valuation</li> <li>Valuation methodology is heavily prescribed with local characteristics and may not yield a result related to 'true market'</li> <li>Absence of international brands from approved valuer list does not help confidence</li> </ul>		

# Bao Viet and VCB Era Issues: solved or not?

	Issue	Then (2007)	Now	Rating
6	Liability for valuation	<p>Valuer must pay unlimited compensation for wrong valuation.</p> <p>This plus the 24 pages of local rules discourage int'l valuers who in practice may only provide non statutory valuations applying int'l norms</p>		
7	Timing	<p>BV ??</p> <p>VCB ??</p> <p>Mobifone announced 2006</p> <p>The target SOE creates the SC and effectively controls it so there is tendency to inaction perhaps to preserve the status quo, despite Gov orders to equitise.</p>		



Current regime

# 1. How many shares will be sold to foreign investors?

- General foreign ownership caps under law and WTO commitments apply
- **Equitization plan** to set out the shareholding structure
- **Two specific rules:**
  - Sectors with State controlling stake – PM Decision 37/2014
  - ‘50% cap’ rule

# Sectors with State controlling stake

Group	Sectors	% stake by State
First group	16 sectors: Manufacture and supply of toxic chemicals and industrial explosives; electricity transmission; the management of railway systems, irrigation systems and air terminals that are important to national defense and security; banknote and coin production; public postal services; and the national lottery	100%
Second group	7 sectors: Oil, gas and large-scale mineral exploitation; the provision of telecommunication infrastructure; the management of inland roads and waterway systems, sea ports and air terminals (which are not included in the first group).	75%+
Third group	8 sectors: Petroleum and natural gas processing; cigarette production; coffee and rubber planting and processing in mountainous and strategic areas; petroleum, gas, food and medical drug wholesaling; finance and banking; electricity distribution; and aviation transportation.	65-75%
Fourth group	9 sectors: public services for urban lighting, water supply and drainage sewerage, environment protection and waste collection; international sea and railroad transportation; production of basic chemicals, chemical fertilizers and insecticides; and coffee and rubber planting and processing in area other than those in the third group	50-65%



## The 50% cap

### [Chi to include chart re 50% cap]

- At least 25% must be sold to ‘SIs and other investors’ and not less than 50% of such portion must be sold to ‘other investors’.
- SIs’ portion is capped at 50% of total shares offered to all external investors.
- Cap means no majority control in management.

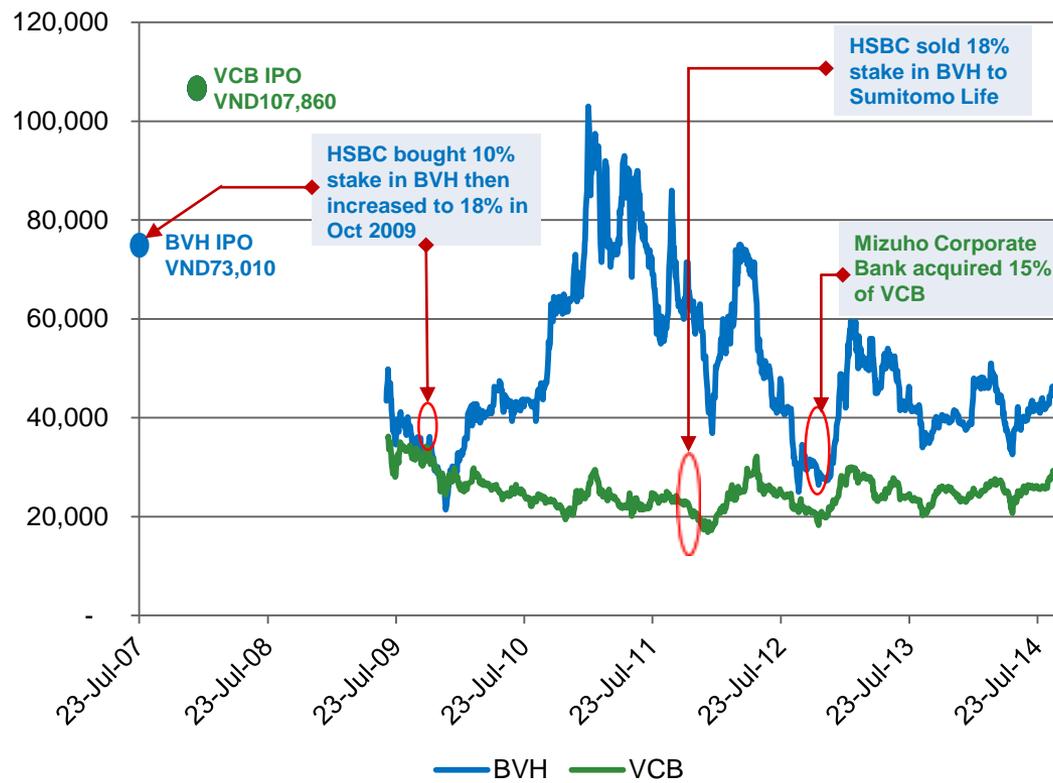
# Ways to increase stake?

- Prime Minister's exemption from 50% cap rule for large SOEs in special sectors or state corporation
  - Vietnam Airlines: 20% to SIs, 3.5% to the public
  - Vocarimex: 32% to SIs, 31.1% to the public
  - BIDV: 15% to SIs, 3% to the public at first round
- Buy at IPO as an ordinary investor
  - Not the same deal
  - No guarantee of the desired ownership level

# Bao Viet and VCB Era Issues: solved or not?

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2	Control	<ul style="list-style-type: none"> <li>Basically impossible for a SI to secure enough shares to veto a 75% let alone 65% vote at GM under LOE</li> <li>Can get some control through power sharing under SHA/Charter</li> </ul>	Largely unchanged	
3	PM flexibility	<ul style="list-style-type: none"> <li>D109 varied D187 to allow PM to vary the 50/50 ratio restricting SIs amount of shares</li> <li>Conflicting law on his power to allow SI to pay less than IPO average price</li> </ul>	Unchanged?	

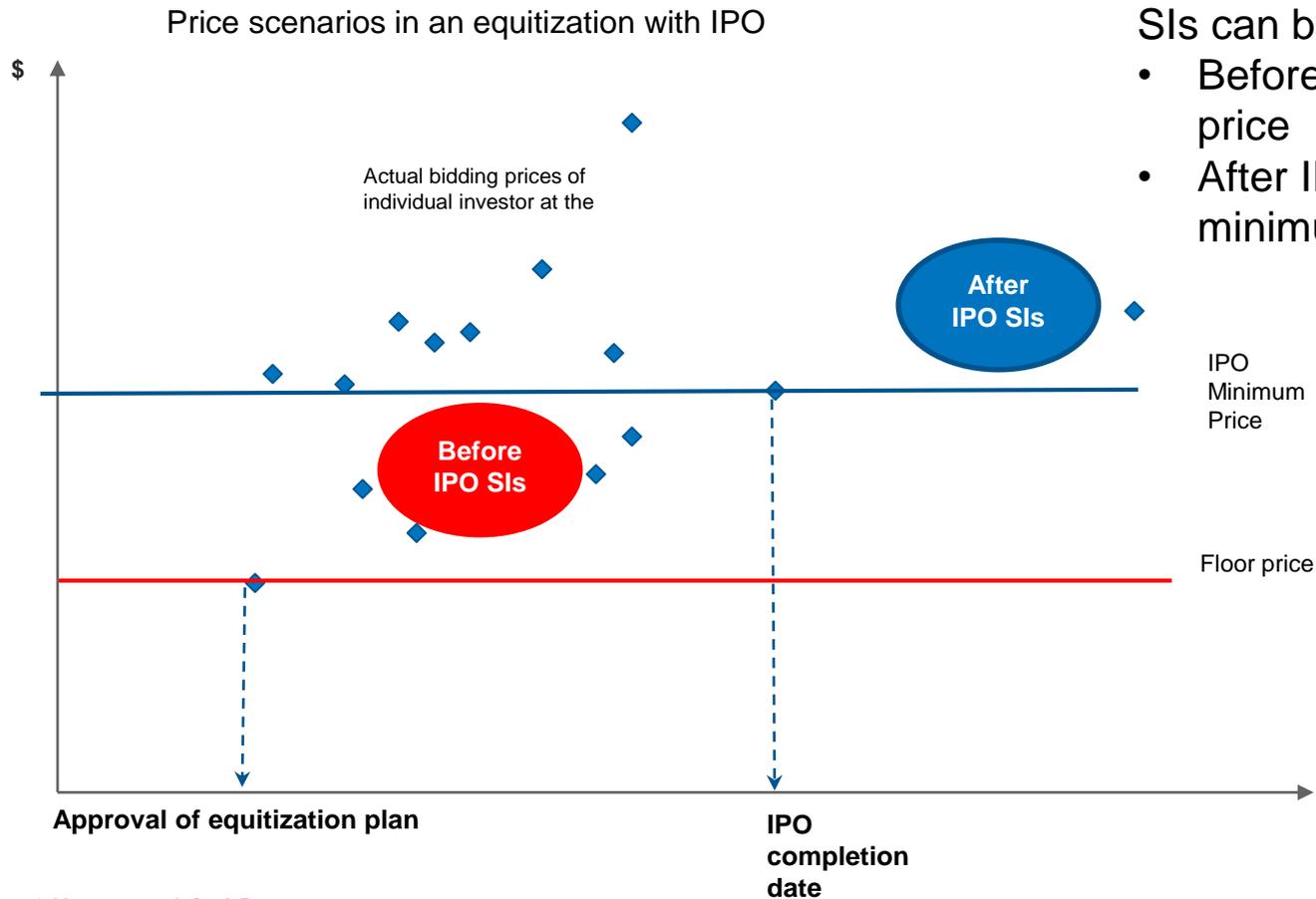
## 2. How price will be determined?



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Terminology	Meaning
Par price	VND10,000 per share
Floor price	initial price derived after valuation completed and based on valuation results and prospect of the SOE.
IPO Minimum price	the cut-off price determining successful bids at the IPO
IPO Average Price	the average of all successful bidding prices at the IPO
SI Price	
Market price	On 23 October 2014

## 2. How price will be determined?



SIs can buy before or after IPO:

- Before IPO SI price > floor price
- After IPO SI price > IPO minimum price

Linh's note: Before IPO SIs are read to match with red floor price and same for After IPO SIs to match with blue IPO price

# Bao Viet and VCB Era Issues: solved or not?

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4	Price	Subscription Agreement of SI signed before public auction must agree to pay the average price achieved at auction	1) Before IPO > floor price 2) After IPO > IPO minimum price	 
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### 3. How will valuation be carried out?

- Valuation is extremely important step where **discrepancy** between buyers and sellers often arises.
- External investors, including foreign strategic investors, may have **limited ability to negotiate** on the valuation process.
- **Methods**: Assets valuation approach, DCF approach and any other suitable and commonly used international valuation approach.

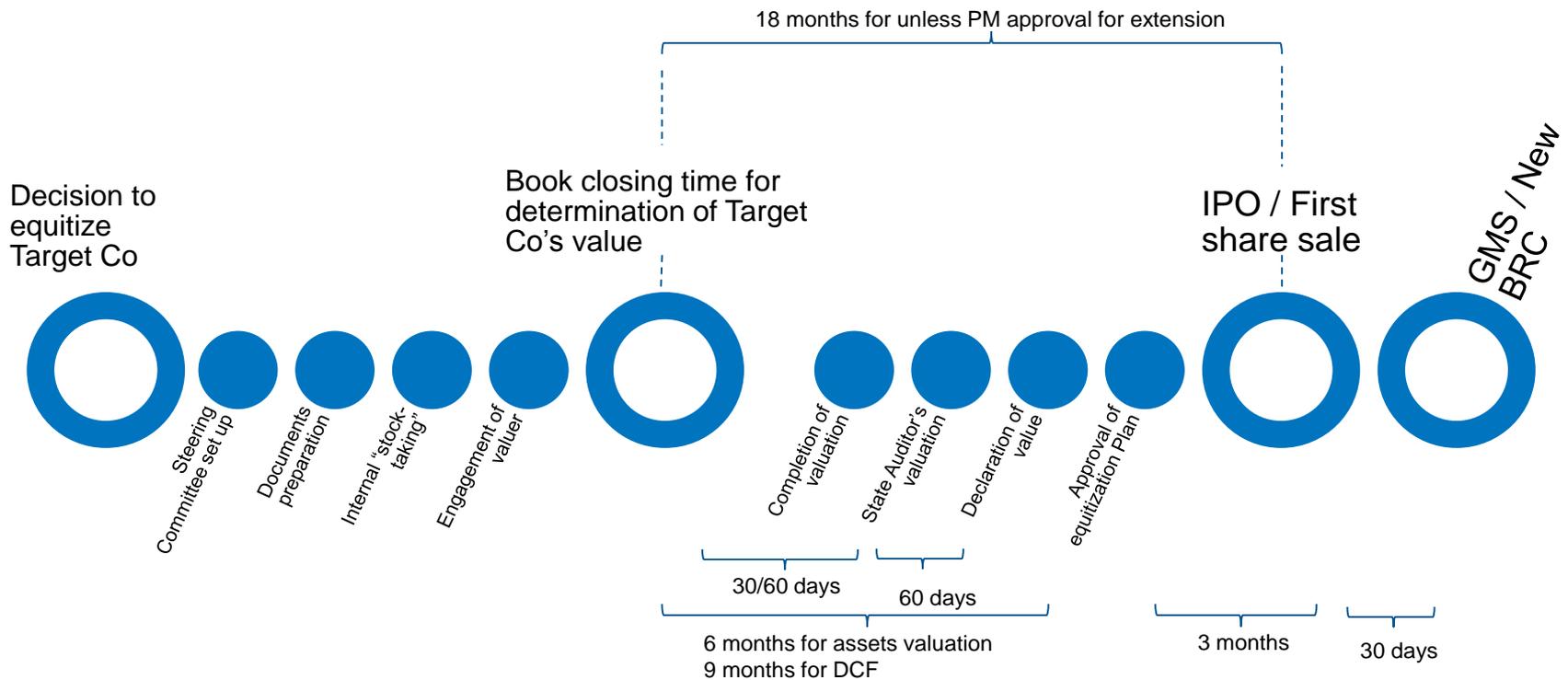
### 3. How will valuation be carried out?

- External valuer from the **MOF's list of 34 qualified local entities**
- **No international valuers** - low value work and high professional liability
- International valuers can **partner with local valuers**
  - Vietnam Airlines: consortium of Morgan Stanley and Citibank: Vietnam Airlines
  - MobiFone, Vietcombank: Credit Suisse
- International valuers may provide valuation services but **disclaim** from equitization process

# Bao Viet and VCB Era Issues: solved or not?

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6	Liability for valuation	<p>Valuer must pay unlimited compensation for wrong valuation.</p> <p>This plus the 24 pages of local rules discourage int'l valuers who in practice may only provide non statutory valuations applying int'l norms</p>	Unchanged	

# 4. How much time will it take?





# How much time will it take?

- Important factors affecting time:
  - the [will of the governing ministry](#);
    - Ministry of Transport (2014): 5 Cianco entities, TEDI, ports (Hai Phong, Nha Trang, Quy Nhon, Quang Ninh, Da Nang), SASCO and Vietnam Airlines (expected 14 November).
  - the [will of the SOE management](#) who directly involves and monitors the process – may work both way.
- Statutory time limits may not be strictly met or the clock may be reset along the way.

# How much time it will take?

- **Currently – 3 years for sizeable SOEs** (with charter capital > VND1,000 billion).
  - Vocarimex (May 2011-July 2014), Vinatex (Oct 2011-Sep 2014), Vigracela (June 2011-Feb 2014), SASCO (Nov 2011-Sep 2014)
- **Exceptional long cases: 8-10 years**
  - Mobifone: plan announced in 2005, now targeting IPO in late 2015 or early 2016
  - Vietnam Airlines: plan announced in 2006, IPO set for 14/11/2014.
- **Older cases: 2-6 years**
  - Petrolimex (Dec 2009-Sep 2011), VnSteel (Nov 2006-Sep 2011), Vietcombank (Mar 2004-Dec 2007), Bao Viet (Nov 2005-July 2007)

# Bao Viet and VCB Era Issues: solved or not?

	Issue	Then (2007)	Now	Rating
7	Timing	<p>BV ?? VCB ?? Mobifone announced 2006 The target SOE creates the SC and effectively controls it so there is tendency to inaction perhaps to preserve the status quo, despite Gov orders to equitise.</p>	2-3 years	



Same same but different?

# Bao Viet and VCB Era Issues: solved or not?

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1	SI's stake			 
2	Control			 
3	PM flexibility			 
4	Price			 
5	Valuation			 
6	Liability for valuation			 
7	Timing			 

# Alternative options

- Options:
  - Conversion to multiple limited liability company
    - Less prescriptive rules on valuation
    - Approval from the PM is required for sale to strategic investors
  - Post-IPO acquisition
    - IPO set the benchmark for negotiation
    - Risk that price may be higher if IPO successfully and market rises.