Private Sector Eyes Investment Funds

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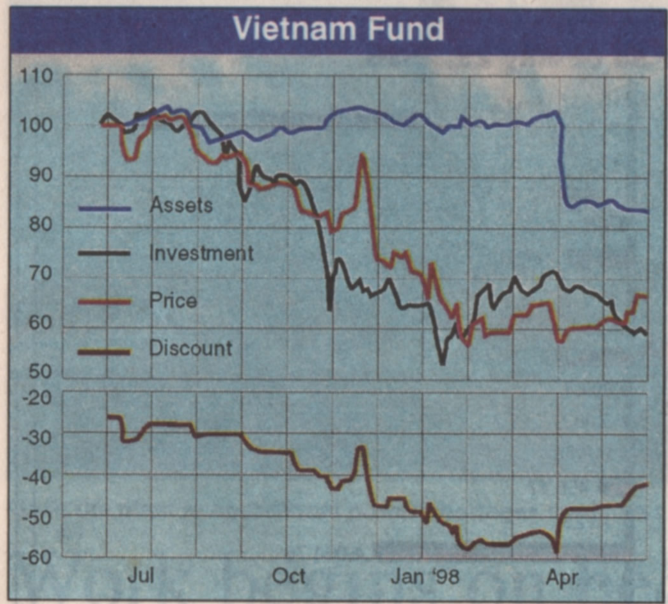
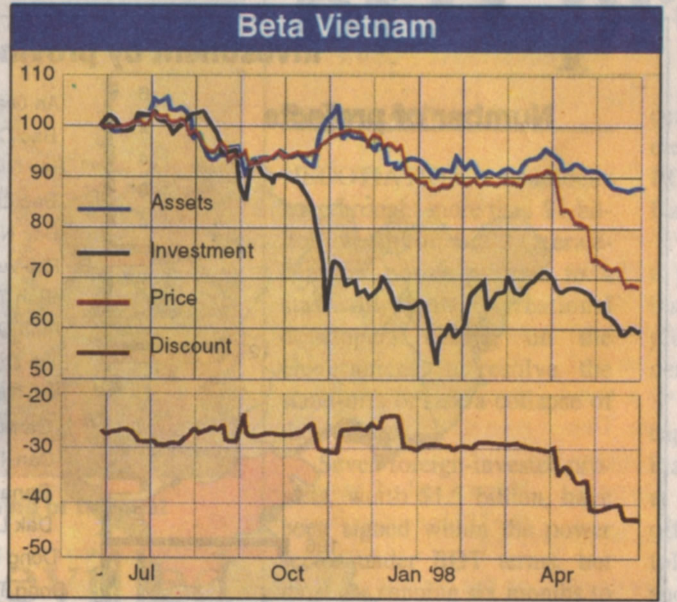
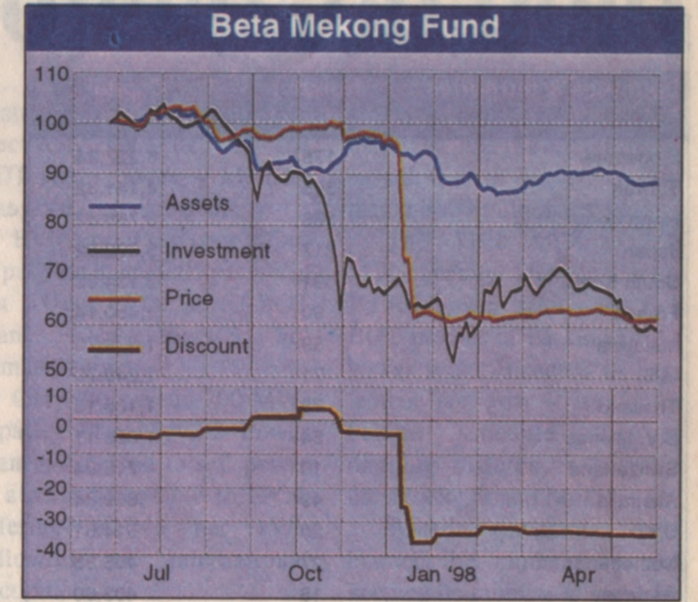
Vietnam Investment Review (pg. 17)

15 - 21 June 1998

More than $20 billion needs to be injected into the economy and its private sector if Vietnam is to achieve its goal of raising per capita GDP to $400 by the year 2000. Set to play a pivotal role in this process are the massive foreign investment funds, which to date have been relatively minor players in the mobilisation of funds to capital-hungry enterprises, particularly when compared with the impact they have had on other developing economies. In this special report, **HOANG QUAN** and **HA THANG** discuss the lucrative potential of international investment funds and explain why such capital is not getting to where it is needed the most







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Summary of closed-end investment funds

Investment Companies	Market Cap. ($m)	Gross Assets ($m)	Investment Committed ($m)	Management Co.	Launch Date	No. of Shares (mn)
Beta Mekong Fund Ltd. (BMF)	24.5	25.6	12.9	Indochina Asset Mgt. Ltd. (ICAM)	Nov. 94	0.5
Beta Vietnam Fund Ltd. (BVNF)	47.2	66.7	36.5	ICAM	Sept. 93	1.3
Templeton VN & SEA Inc. (Templeton)	90.6	113.2	63.0	Templeton Emerging Markets Ltd.	Sept. 94	8.0
Vietnam Ent. Investment Ltd. (VEIL)	16.6	16.2	15.3	Dragon Capital Management. Ltd.	Jul. 95	16.4
Vietnam Fund Ltd. (VF)	42.0	57.6	45.4	Vietnam Fund Management. Ltd.	Oct. 91	5.0
Vietnam Frontier Fund Ltd. (VFF)	38.8	53.0	27.2	Frontier Fund Management. Ltd.	Jul. 94	5.0

Source: Bear Stearns Int'l Ltd. Data as at Aug. 31, 1997

WHILE many domestic enterprises in various sectors are in urgent need of financing – both equity and debt – few cash-strapped companies and cashed-up funds actually meet.

In most cases, closing a deal between private businesses and investment companies is a time-consuming process requiring the closest attention.

Despite the patience and good will of fund managers, unexpected slow investments in Vietnam's equity and commercial debt markets have led to a large proportion of temporary assets – usually cash being held rather than realised. The shrinking market performance of the funds has left investors and observers somewhat downbeat.

In fact, recent data indicates most funds face a widening trade discount, shrinking Net Assets Value NAV and price. In the Lazard Vietnam Fund case of nearly 90 per cent of the funds were in cash and other short-term temporary assets.

Vietnam's burgeoning private sector has numerous business units – 17,500 co-operatives and some 30,000 limited-liability and share-holding companies. Furthermore, soon-to-be-equitised SOEs will add to the non-State sector's magnitude.

It is difficult, however, to identify and develop well-qualified investment proposals from this growing sector.

The current habit of amassing a swathe of unprepared project concepts simply has not proved effective, and many offshore funds reject most local projects due to the ambiguity of their feasibility and profitability.

Vicoopsme, the largest institution representing non-State businesses, said that it had received numerous requests and proposals for financial and technical support from members, according to President Dr Nguyen Ty.

Vicoopsme's resources were just a drop in the ocean, he said, and the degree of professionalism in the financial consultancy and business advisory services have been inadequate to date.

Few projects sent to consulting agencies and financial institutions met the expectations of potential financiers.

Major obstacles included reporting requirements, transparency of information, accuracy and sophistication of financial analyses, marketing arrangements, technical appraisal, and the report presentation itself.

Apart from the fact that many consulting firms in Vietnam were expensive, though maintained a high degree of quality and honesty, few local companies were in the habit of using them anyway.

Eventually, there comes a time when quality and well-developed investment proposals make all the difference. The bottom line is that a truly valuable financial consultancy industry has not been put in place as yet.

A modest proportion of new capital flows to Vietnam are asset-based commitments from investment funds targeted at Vietnam and Southeast Asia.

These investment funds, capitalised at around $500 million, were set up to seek potential business opportunities in Vietnam, Laos, Cambodia, Myanmar and other Asean member countries.

Well-known among the domestic business community as potential sources of equity funding are big names like the Beta Vietnam Fund, Beta Mekong Fund, Vietnam Fund, Templeton Vietnam & Southeast Asia, Vietnam Frontier Fund and the Vietnam Enterprise Investment.

All are capitalised and traded on international markets and registered offshore. Many are managed by reputed professional management groups like Templeton Emerging Markets Ltd and Indochina Asset Management Ltd.

To a certain extent, the money from these funds can be regarded as venture capital, which expects higher returns as compensation for its willingness to take on higher risk.

Despite the liquidation of the Lazard Vietnam Fund in 1997 and the re-organisation of Templeton Vietnam & Southeast Asia Inc. (from Templeton Vietnam Opportunities), all existing closed-end funds are on schedule with investment targets in Vietnam, reflecting a high expectation of future opportunities.

Most agree that many investment opportunities exist.

The country's 8-9 per cent growth rate is testament to the country's blossoming future. Although the major investment strategy of these funds to date has been to invest and co-finance foreign-invested enterprise projects, actual performances indicate that there are real opportunities for investment in domestic private projects.

For example, VEIL offered REE convertible bond financing worth $2.1 million and Asia Commercial Bank $3.1 million. VF invested $4 million in the Huy Hoang Company, $2.6 million in Hunsan Co Ltd and $2.7 million in Viet Hoa Construction Co Ltd.

The capital structure of a closed-end investment company enables it to perform appropriately in emerging markets like Vietnam. The basic advantages are:

(i) the protection of an investment decision while in trade discount;

(ii) increased investment opportunities in most profitable companies with highly liquid and risky natures;

(iii) fund leverage, where fund managers appreciate bullish position, allowing for additional borrowings that help further growth.

Dong Nai IZ records bumper $230m export purse

By Minh Huong

DONG Nai-based industrial zones earned nearly $230 million from exports during the first five months of this year, according to the province's zone management board.

Imports to Dong Nai-based IZs reached $286.6 million over the same period, more than $50 million of which was in the form of basic construction and the remainder from business and production operations.

By the end of May, the Vietnam-Singapore Industrial Park (VSIP) earned only $1,446 from exports compared with nearly $5.7 million worth of imports during the period since enterprises were engaged in trial production, according to the VSIP Management Board.