

Letting the market take care of M&As

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Vietnam has witnessed numerous merger and acquisitions (M&A) deals with foreign partners completed in recent years, with many more in the pipeline.



Michael Piro, chief operating officer at real estate developer Indochina Capital, spoke to VIR's Trang Nguyen about what local enterprises and authorities should pay attention to in order to welcome more quality investment.

What is the level of interest in investing in Vietnam among foreign investors, through either direct or indirect investment routes?

Vietnam has always been a hotspot for attracting foreign investment. By World Bank figures, Vietnam ranked third in 2016 in terms of foreign direct investment (FDI) attraction in Southeast Asia, behind Singapore and Malaysia. Looking at the recent trends in FDI, Vietnam continues to perform extremely well, with 2017 hitting a record not seen since 2009 in terms of both registered FDI (\$35.9 billion) and disbursed FDI (\$17.5 billion). Although the majority of this investment was directed towards the manufacturing industry (44.2 per cent of total FDI), the real estate sector ranked third, with 8.5 per cent of total FDI.

To us at Indochina Capital, this is an extremely encouraging sign, and it speaks to the opportunities that exist here in the country. Many investment conferences in the region had an entire session dedicated to Vietnam, which are often well attended, demonstrating a high level of interest.

Additionally, we received numerous enquiries from foreign investors, most notably from South Korea and Japan, who are interested in entering the Vietnamese market. We are excited about what is to come and look forward to co-operating with a number of these foreign investors, who can highly benefit from our real estate expertise and our experience developing some of the most reputable properties in Vietnam.

The market has recently witnessed many mergers and acquisitions (M&As) with foreign involvement through capital contribution or share acquisition. What do you think about this?

This trend proves that the market is becoming more professional and transparent – a welcome transformation. As a foreign investor ourselves, Indochina Capital always makes our investments via capital contributions or share acquisitions for the sake of transparency and ease of execution. Unfortunately, not that many sellers are able to accommodate this type of structure, since it requires strong legal support to set this up, which is often lacking in cases with local vendors. The earlier a clear legal structure is set up, the easier and more cost-effective the transaction will become. Most local vendors only think about this at the time of sale, at which time the cost to set up the legal framework becomes an issue and it scares away local sellers from even considering to adopt such a structure.

However, the fact that more and more transactions are carried out under these methods show that our Vietnamese counterparts are making the conscious decision to streamline and facilitate the transaction. The role of experienced consultants like us here at Indochina Strategic, Indochina Capital's advisory arm, is also instrumental in bringing about this change.

Indochina Capital has been acquiring and selling hundreds of millions of dollars' worth of investments, allowing us to understand the acquisition process inside out, especially the importance of setting up the correct legal structure. This has an enormous impact on the transferability of the assets, tax implications, and capital repatriations.

How should Vietnam view the FDI flows in the form of M&A into the country, in order to properly manage and encourage this kind of foreign investment?

Foreign investment is not just a capital flow. It is also a form of human capital development, where foreign investors will transfer their knowledge and expertise to their local partners. Many financial investors are also strategic investors, meaning that they are experts in their respective industry and can add a lot of value to business operations. Even when the investor is purely financial, they can help restructure the business, sharpen its financial management system and corporate governance, and improve the company's bottom line. This is only one of the many benefits of working with foreign investors.

To properly manage and attract foreign investment, we believe that the Vietnamese government should create an agency which will be able to provide guidance and support to foreign investors, in addition to promoting Vietnam as a destination for investment overseas. Examples of such institutions are the Japan International Cooperation Agency and the Korea International Cooperation Agency. Vietnam has the Foreign Investment Agency, but there is still room for improvement, especially when it comes to its international reach.

Some believe that it is advisable to control foreign capital flows in order to select and focus on quality investments in Vietnam. What is your opinion on this? Is a filter needed for M&A deals

in order to select qualified investors without hindering the FDI inflow?

Unless the investment is related to national security or social well-being, the general rule is to let the free market do its work through the forces of supply and demand. Most of the time, the market is an unbiased and effective tool to select the most effective investors, therefore ensuring the success of the highest-quality products. This is akin to the theory of natural selection.

Take real estate for example, when a land plot is for sale, a competitive bidding process will ensure the highest bidder is selected. The highest bidder is usually one that can use the land most efficiently and adds the most value to the plot.

That being said, it is necessary for the government to provide oversight and step in when issues arise or, even better, before these problems occur. An example can be traced back to the period of 2007, when the Vietnamese real estate market was booming and encouraged the development of many condominium units. It took around five years to sell off this large supply, before clearing the way for a new wave of real estate developments. In Singapore, the government will stop licensing new land use certificates when there are warning signs of oversupply. This will help balance market forces at times when the market is not functioning properly.

To call for attractive capital, what should local firms and authorities pay attention to?

With regards to the authorities, strong government support is especially important. The support can be in the form of a clear legal framework, guidance on the relevant procedures, and attractive incentive policies. Each year, the Vietnam Chamber of Commerce and Industry releases the Provincial Competitiveness Index, which is designed to assess and rank the performance, capacity, and willingness of provincial governments to develop business-friendly regulatory environments for private sector development. Through this index, investors will be able to identify provinces where the authorities create pro-business policies that allow their investments to flourish. Examples of localities that attained high scores are Quang Ninh and Danang.

With regards to businesses, it is important to understand what foreign investors need and want, and be accommodating to their requests. To effect any necessary change, it is important for the company's management to have an open mind and be receptive to new ideas, since these transformations will be most effective if they are implemented from the top down.

For companies that are calling on foreign investment for the first time, it is highly recommended to hire an experienced consultant. The consultant acts as a "translator" to ensure that both parties are on the same page and to avoid any unnecessary miscommunications. Additionally, they will help guide both parties through the entire process to facilitate and speed up the transaction.

What is Indochina Capital's future direction in Vietnam? Please share some of your experiences that have been obtained from 20 years of doing business in Vietnam.

Indochina Capital is very optimistic about Vietnam and the direction that it is headed in. We remain committed, as indicated by the two ventures ICC-Kajima and ICC-Vanguard, through which we will enact our ambitious plans to make our mark in the Vietnamese real estate market. This underscores our pledge to continue to be market leaders and innovators in a country that is full of opportunity.

There remains a great deal of opportunity in Vietnam and we have learned that the country rewards those who remain committed to its long-term growth while remaining open-minded to the local nuances. These attributes have been the key to our success to date and will continue to be guiding principles as we look forward.

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