

## EQUITISATION AND DIVESTMENT OF STATE-OWNED ENTERPRISES REMAINS A POLICY PRIORITY DESPITE BOTTLENECKS

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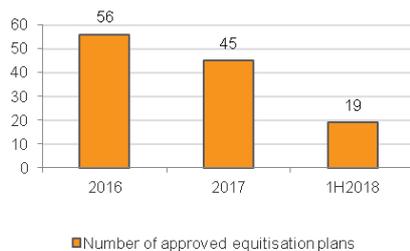
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Despite an apparent deceleration in the pace of SEO equitisations and state stake sell-downs in recent months, the government's privatisation drive continues. At a time when cyclical sectors might be falling out of favour, the government might push ahead with IPOs of utilities assets such as water supply, electricity and energy companies which could satisfy a possible surge in appetite for defensive stocks next year.

In the first half of 2018, the government approved the equitisation plans of 19 State-Owned Enterprises (SOEs). The enterprise value of these companies was projected at over VND40,600bn (~US\$ 1.8bn). According to the approved equitisation plans, the state will only hold about 58.8% of the shares while employees will hold 0.5% of total shares after the completion of the equitisation and divestment process, marking a departure from tiny slivers of stake offered to the public in several previous SOE equitisations and subsequent divestments.

Figure 1: Number of approved equitisation plans



Source: MOF

In the first six months of 2018, the government completed the equitisation of 16 SOEs accounting for 73% of the 2017 target. Eight of these companies are spill-overs from the equitisation plan of 2017 and eight enterprises are under the equitisation plan of 2018, including some notable names such as PVPOWER, PVOIL and GENCO 3. Under the approved equitisation plans, these 16 enterprises have a chartered capital of more than VND136,000bn, of which the state will hold a 54.1% stake and employees will hold a 0.5% stake, post IPO and the state's divestment. The state has collected VND22,500bn from the equitisation process, amounting to 36% of the total planned proceeds from the equitisations and divestments of these enterprises.

Figure 2: Notable state-owned enterprise listings in 1H2018 (VND.bn)

Name	Sector	IPO date	Listing date	Ticker	Chartered Capital	Proceeds from the IPO	Market cap at the IPOs date	Current market cap	2017 revenue	2017 net profit	Current state ownership	Targeted state ownership
Binh Son Refinery	Oil & Gas	17/01/2018	01/03/2018	BSR	31,005	5,566	69,451	55,468	81,333	7,711	92%	43%
PetroVietnam Power Corporation	Oil & Gas	31/01/2018	06/03/2018	POW	23,419	6,992	46,251	35,374	29,710	2,233	80%	51%
PetroVietnam Oil Corporation	Oil & Gas	25/01/2018	07/03/2018	OIL	10,342	4,177	20,887	15,973	59,742	428	80%	35%
Vietnam Southern Food Corporation*	Commercial	14/03/2018	23/04/2018	VSF	5,000	1,160	6,454	4,000	16,251	(23)	77%	51%
Vietnam Rubber Group*	Rubber	02/02/2018	21/03/2018	GVR	40,000	1,300	52,044	31,600	15,545	2,489	97%	75%
Hanoi Trade Corporation	Commercial	03/03/2018	04/05/2018	HTM	2,200	981	2,222	1,804	3,984	25	66%	0%
Power Generation Corporation 3	Power	10/02/2018	21/03/2018	PGV	20,809	185	51,610	28,716	37,907	281	97%	51%

\*data as of 2016

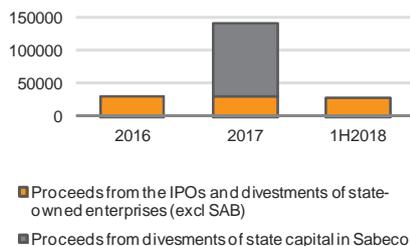
Source: VNDIRECT

In 1H2018, the government divested state ownership in 42 previously equitised enterprises collecting nearly VND5,600 billion in total proceeds.

Going by the yardstick of total value of state stake sell-downs, the SOE privatisation drive has accelerated in recent years.

To sum up, the government has collected VND28,100bn from equitisation and divestment of SOEs in the first half of 2018, of which VND22,500bn was from the equitisation process and VND5,600bn from divestment of previously equitised assets. The proceeds from IPOs of SOEs in the first half of 2018 was four times the level seen in

**Figure 3: Proceeds from IPOs and divestments of state-owned enterprises (2016-1H2018) (VND bn)**



Source: MOF

the same period in 2017 (VND5,200bn). Since the beginning of 2016, the government has collected VND198,000bn from the equitisation and divestment of SOEs, including VND30,000bn in 2016, VND140,000bn in 2017 (of which VND110,000bn came from SAB) and VND28,100bn so far in 2018. The total value of proceeds collected over this period was three times the amount realised over the 2011-2015 period.

The amount paid into the state budget from equitisation and divestment of state-owned enterprises from 2016 until now is VND 115,000 billion, equivalent to 46% of the resolution of the National Assembly regarding state divestment for the period 2016-2020, showing that the pace of implementation remains on track.

**However, progress has underwhelmed versus ambitious targets**

The government has only approved the equitisation plans of 19 state-owned enterprises out of a total of 85 enterprises which need to complete equitisation in 2018.

Meanwhile, the progress of state divestment from previously equitised state-owned enterprises is also slower than the government's plan. Specifically, the government divested state ownership in only 17 out of 135 state-owned enterprises in 2017. The government has plans to divest from 181 enterprises in 2018, but so far over 1H2018, they divested from only 10 enterprises.

**Therefore, the prospects for completion of state-owned equitisation and divestment are uncertain.**

**We believe the Government will continue to speed up the equitisation and divestment process of SOEs in the second half of 2018.**

In the Vietnam M&A Forum 2018, held on 8 August, the Deputy Prime Minister Vuong Dinh Hue said no less than three times. "The government will accelerate the divestment of SOEs". According to the Deputy Prime Minister, from now to 2020, the Government will divest state ownership in the enterprises which have completed the first phase of equitisation but still have large amounts of remaining state ownership. So far, only 8% of state ownership was divested from the already equitised SOEs.

Regarding the divestment in state-owned banks, Vuong Dinh Hue said the government will implement Agribank's IPO in 2019. The state will gradually reduce its ownership in other state-owned commercial banks, including BIDV and Vietcombank, and allow them to raise capital from other investors because these banks need more capital to ensure their credit growth prospects in the upcoming years and to meet the capital adequacy requirements imposed by Basel II. The government is also unwilling to inject more capital into state-owned banks. In the past few months, rumors have abounded that VCB and BIDV will offer private placements to strategic partners to raise capital. However, this process is being held back by lack of consensus on valuation.

The Deputy Prime Minister also said that the government will transfer weak banks under the special control of the SBV (such as OceanBank, CBBank, GPBank) to strategic investors. In the near future, the Government will restrict or refuse to grant licenses for more wholly foreign-owned banks, instead encouraging foreign investors to buy into Vietnamese banks and own 100% of the shares (this could signal a potential selective lifting of the current 30% FOL cap on banks)

Meanwhile, the Ministry of Finance has just issued a detailed circular for divesting state capital in state-owned enterprises. This is the guiding document Decree 32, issued by the Government at the beginning of this year (March 2018) which creates a concrete legal framework for the implementation of the sale of state capital in state-owned enterprises.

**These are signs to suggest that the government will speed up the equitisation and divestment process of SOEs in the second half of 2018.**

Many notable names are on the list of state-owned enterprises which need to complete the equitisation and state capital divestment process in the second half of 2018 and the upcoming year 2019.

Figure 4: Upcoming state IPOs (2H2018 and 2019)

Name	Sector	Chartered capital (VND.bn)	Total Assets (VND.bn)	2017 revenue (VND.bn)	2017 net profit (VND.bn)
Power Generation Corporation 1	Electricity	17,943	125,997	25,476	436
Power Generation Corporation 2	Electricity	11,164	58,928	21,824	1712
Vietnam Paper Corporation*	Paper	1,231	3,553	2,853	23
Vietnam Cement Industry Corporation**	Cement	12,360	44,630	26,529	2,564
Vietnam Mobile Telecom Services One Member Limited Liability Company	Telecommunication	15,000	na	44,234	5589***
Housing and Urban Development Corporation*	Real Estate	2,295	15,003	6,553	379
Saigon Trade Corporation (Satra)**	Food & Beverage	7,307	16,604	10,231	3,023
Saigontourist Company	Tourism	6,763	11,695	6,202	1,568
Hanoi Housing Development and Investment*	Real Estate	1,661	6,998	1,034	252
Urban Infrastructure Development Investment**	Real Estate	2,587	7,399	3,249	305
Saigon Industry Corporation	Industrials	2,460	4,167	4,055	175
Saigon Transportation Mechanical Corporation Limited (Samco)**	Industrials	1,741	6,229	8,202	637
Vietnam National Tobacco Corporation**	Tobacco	7,164	17,954	18,858	1,070

\*data as of 2015, \*\*data as of 2016, \*\*\*profit before tax

Source: VNDIRECT

The government will continue to divest its ownership in some companies which have completed the IPO process but still have large state ownership stakes.

Figure 5: Upcoming divestments (planning in 2H.2018 and 2019)

Company	Sector	Market Cap (VND.bn)	TTM P/E (x)	TTM P/B (x)	ROE (%)	2017 revenue (VND.bn)	2017 net profit (VND.bn)	2017 revenue growth	2017 net profit growth	Current state ownership	Targeted state ownership
Airports Corporation of Vietnam (ACV, UPCOM)	Aviation	181,375	32.6	6.5	20.3%	13,830	4,101	-5.6%	-19.7%	95%	65%
Vietnam National Petroleum Group (PLX, HOSE)	Retail	82,508	22.0	4.2	16.1%	153,697	3,468	24.9%	-25.7%	76%	51%
Vietnam Engine and Agricultural Machinery Corporation (VEA, UPCOM)	Construction	38,591	9.5	2.6	27.4%	6,563	5,046	4.1%	12.0%	88%	36%
Vietnam Airlines Joint Stock Company (HVN, UPCOM)	Aviation	46,201	15.0	2.8	17.6%	82,951	2,371	18.4%	15.4%	86%	65%

Source: VNDIRECT

Some companies are also seeking strategic partners with the state's stake in these companies being offered for sale. These include Binh Son Refinery (BSR, UPCOM), PetroVietnam Oil Corporation (OIL, UPCOM) and PetroVietnam Power Corporation (POW, UPCOM).

The State Capital Investment Corporation (SCIC) is expected to accelerate the state stake divestment process in some companies such as Vietnam Construction and Vietnam Import Export Joint Stock Company (VCG, HNX), Domesco Medical Import Export Joint Stock Company (DMC, HOSE), Sa Giang Import Export Corporation (SGC, HOSE) and Vinacontrol Certification and Verification Joint Stock Company (VNC, HNX).

Figure 6: Upcoming SCIC's divestment (planning in 2H.2018 and 2019)

Company	Sector	Market Cap (VND.bn)	TTM P/E (x)	TTM P/B (x)	ROE (%)	2017 revenue (VND.bn)	2017 net profit (VND.bn)	2017 revenue growth	2017 net profit growth	Current state ownership	Targeted state ownership
Domesco Medical Import Export Joint Stock Company	Pharmaceuticals	2,743	13.2	2.9	21.3%	1,340	208	3.9%	23.1%	35%	0%
Sa Giang Import Export Corporation	Food & Beverages	608	24.3	6.1	22.9%	289	30	9.1%	4.2%	50%	0%
Vietnam Construction and Import Export Joint Stock Company	Real Estate	7,642	6.0	1.0	17.0%	10,898	1,341	27.5%	168.5%	58%	0%
Vinacontrol Certification and Verification Joint Stock Company	Consulting services	413	12.4	2.4	17.1%	519	33	4.4%	7.6%	30%	0%

Source: VNDIRECT

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#### Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

#### Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

#### Country Ratings

Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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