Private Equity in Vietnam 2009:
Investment outlook survey results – Part I

Grant Thornton Vietnam, April 2009

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Introduction

Notwithstanding Vietnam's recent fixation with listed companies, the Private Equity sector has been quietly providing an avenue for growth for many Vietnamese companies. However, with the recent global slowdown and the inevitable effects on the Vietnamese economy, Grant Thornton Vietnam sought to gain a more detailed understanding and insight into Private Equity participants and their investment intentions.

Our survey, which was titled "Private Equity – Vietnam Investment Environment and Outlook Survey", involved 169 selected participants involved in a broad cross-section of the investment community with an interest in Private Equity investments. Participants covered both Vietnamese and foreign parties, and included advisors to the industry.

This report, one of a two-part series, offers insight into where key industry participants feel Vietnam's economy is currently heading, where the country is in investment preference compared to other destinations, and where participants intend to invest in the coming year.

Part two of the series will look at specific industry sectors in Vietnam and where the investment outlook is for these sectors, along with problems and obstacles faced by Private Equity investors in Vietnam.

The results of the survey have been encouraging, providing support that not everyone is pessimistic, that value is seen by many in Vietnam and that Vietnam is an attractive place for Private Equity investment.

"Private Vietnamese companies with vision and foresight have developed strong positions in the Vietnamese market and are providing the best growth opportunities for knowledgeable investors. Not an easy market to assess, Private Equity investment in Vietnam does provide an avenue for those to profit handsomely if they are willing to put in the hard work and do their homework."

Ken Atkinson
Managing Partner
Grant Thornton Vietnam

Economic outlook for 2009

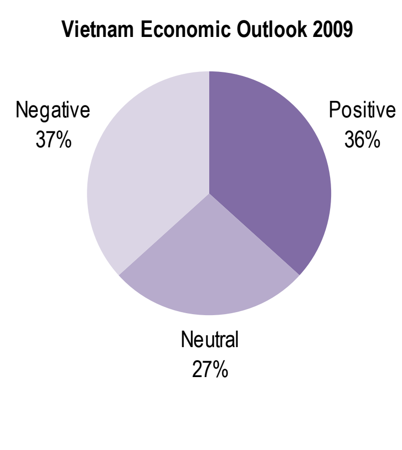
Findings

Somewhat unexpectedly, respondents of the survey were equally split when asked for their outlook or the Vietnamese Economy over 2009. We say "unexpectedly" as we expected to see a clear trend emerge based upon the historic and forecast economic information released so far this year.

These results could equally be interpreted as 63% of respondents not being positive about Vietnam's economic outlook for 2009, or 63% of respondents not being negative about the economy. We are not interpreting these results either way, and believe that the results reflect the true uncertainties being experienced in both the Vietnamese and global economies at present.

In recent times we have seen third party economic growth forecasts for 2009 vary from an optimistic 6% down to 0.3%. Although these are positive growth figures in a world where most developed economies are forecasting substantial negative growth, they are significantly down from the average growth rate of 7.5% that Vietnam has experienced over the past seven years. Growth rates at the lower end of the forecasts are likely to place great pressure on the domestic economy as the country relies on economic expansion to create jobs and accommodate the large numbers of young entering the workforce each year, which is one of the common trends experienced by emerging economies.

In the first three months of 2009 we have seen a return to a current account surplus, something not experienced for more than three years. On the surface this appears to be a very positive sign for the economy, however stripping out anomalies such as the large amount of gold re-exported, provides many with less enthusiasm. Imports are down year-on-year which again can be interpreted as a positive sign for the economy; however, after taking into account the considerable portion of Vietnamese exports that have a component of re-processed imports, a different view could easily be formed.



Question: ***"What is your general outlook for the Vietnamese economy over the next 12 months?***

Investment attractiveness

Findings

In what can be interpreted as a strong vote of confidence in the Vietnamese economy, or a complete lack of confidence in the rest of the globe, 67% of respondents rated Vietnam as more attractive compared to other investment destinations. Further, less than 20% of respondents classified Vietnam as less attractive than other destinations.

There are many reasons for why we see such a strong level of support for the investment attractiveness of Vietnam despite the less definitive results from the survey on the outlook for the economy in 2009, including the trouble experienced by other competing economies over the past year or two: China has suffered numerous quality-related scandals and cover-ups, and Thailand has suffered political turmoil and unrest – both historical competitors in the region.

We also see a relatively strong domestic economy that has experienced rapid modernisation with low levels of private domestic debt in recent years.

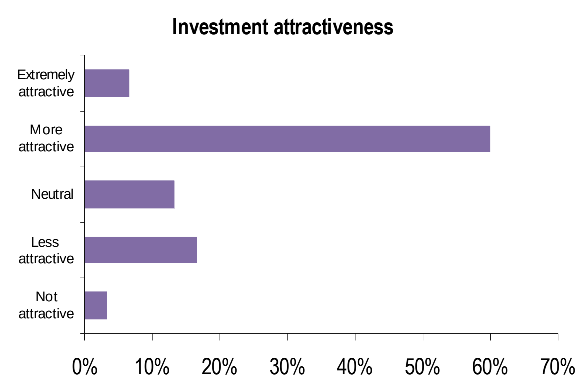
With other emerging economies possibly facing more sustained and longer downturns, Vietnam may provide growth opportunities where other markets are likely to be static or negative for a longer period.

Respondents who invest in more than one country were asked as to whether they would increase, decrease or have no change to the allocation of their portfolio towards Vietnam in 2009. Only 8% of respondents stated that they would decrease their allocation, while 42% were intending to increase their portfolio allocation to Vietnam.

Question: *"In today's challenging global economic environment, where do you rank Vietnam in terms of investment attractiveness?"*

67% of respondents rated Vietnam as more attractive as compared to other investment destinations

42% of respondents will increase their international investment allocation to Vietnam in 2009



Time frame for completing PE investments

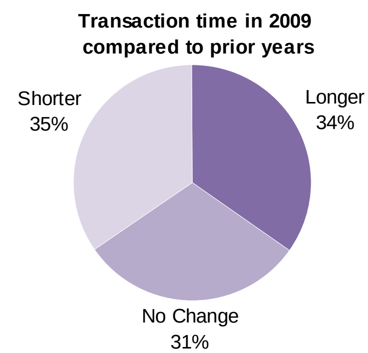
Findings

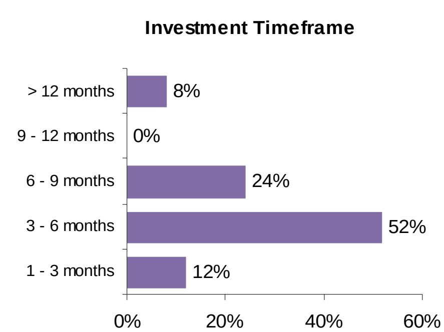
When asked about investment time frames for completing Private Equity transactions, more than half of respondents stated that they usually take between 3 and 6 months to complete a Private Equity transaction in Vietnam. Interestingly, 8% of respondents expect the average time frame to complete a transaction to be greater than 12 months. When then asked whether they believe that transactions will take longer or shorter to complete in 2009, there were strong yet equal opinions in both directions: 34.6% of respondents believe that transactions will take longer in 2009, whilst the same percentage expect transactions to take less time to complete.

We believe that the strong opposing views in regards to transaction time frames in 2009 can be explained by a few factors. Firstly, some investors believe that during the economic downturn they will be able to take advantage of opportunistic investments in the distressed environment and quickly complete transactions where the seller is desperate. This is historically a time that Private Equity excels, buying cheap and selling in a higher point in the economic cycle. At the same time, international capital constraints have resulted in some investors being more cautious and taking their time to really understand target businesses to ensure investment decisions are fully considered.

Question 1: *"Do you believe that, on average, transactions will take a longer or shorter time to complete in 2009?"*

Question 2: *"What is your average time frame for completing a PE investment?"*





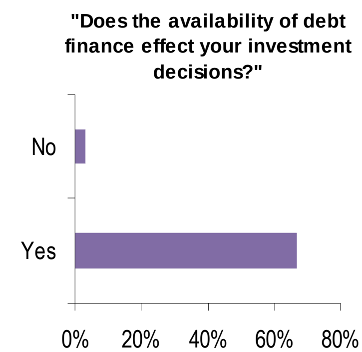
Access to finance

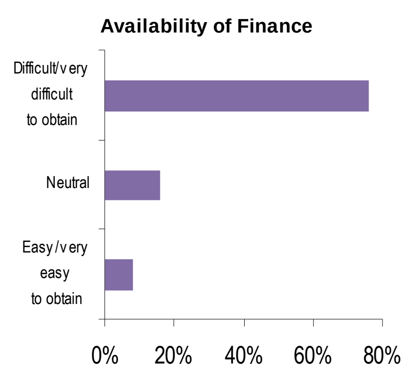
Findings

Availability of debt is a cornerstone when undertaking Private Equity transactions and the effects of the global "credit crunch" on the access debt for many high profile companies have been widely publicised. In the Vietnamese context, Private Equity investors are no different, with 67% of respondents confirming that the availability of debt finance effects their investment decisions.

Further, 76% of respondents believe that debt, at present, is either difficult or very difficult to obtain. With the high dependence on debt for completing Private Equity investments, this is a large roadblock for many investors and is lowering the number of investment transactions.

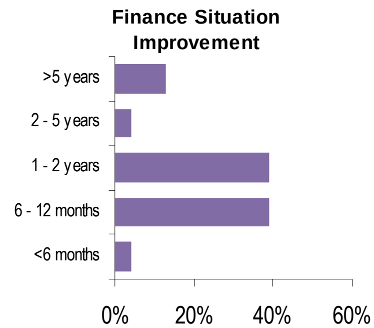
When asked when respondents believe that financing conditions will become more favourable, 57% indicated that they believed it will be at least one year before this occurs. Not unexpectedly in the current environment, only 4% of respondents believed that this will occur within the next six months.





67% of respondents indicate that the availability of debt effects their investment decisions and **76%** believe that debt is difficult or very difficult to obtain in the current environment.

57% believe that it will be longer than 12 months until debt availability returns to favourable conditions



Portfolio allocation

Findings

We asked participants which asset class in their Vietnamese investment portfolio they would be increasing or decreasing their allocations to in 2009 versus 2008. This was a general question to ascertain how investors see the different asset classes in Vietnam, as many of the Private Equity investors in Vietnam invest across a wide range of asset classes as part of their overall portfolio.

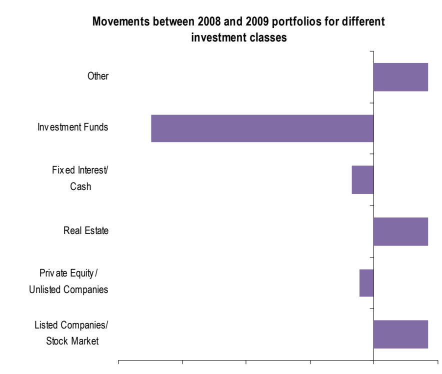
What we found was, despite the earlier finding that 42% of respondents are planning to increase their global allocation towards Vietnam, in domestic terms this is not expected to translate to a substantially larger investment allocation towards Private Equity.

Specifically, the results indicated that there will be a 2.4% decrease in portfolio allocation in Vietnam away from Private Equity, an 8.5% increase towards Real Estate and Listed Securities, and a 35% decrease in investment into Investment Funds.

With the collapse in Vietnam's listed share prices over the past 15 months and the equally poor returns from real estate over the same period, investors appear to be seeing these sectors as having the greatest potential for growth.

What was not unexpected was the finding that respondents are planning a 35% decrease in allocation to Investment Funds, which correlates to the substantial discounts to net asset values that listed Investment Funds are facing at present.

Vietnamese Private Equity as a portion of respondent's investment portfolios are expected to decrease by **2.4%** in 2009 versus 2008, with increases of **8.5%** into Real Estate and Listed Securities. Respondents are moving away from Investment Funds, with a substantial decrease of **35%** expected.



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