VIETNAM

BUSINESS REVIEW

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ECONOMY

Core inflation to rise to roughly 2% in 2016

VNS - Core inflation this year could increase slightly to roughly 2% from 1.7% last year, the National Financial Supervisory Commission (NFSC) forecast.

NFSC also forecast that CPI in 2016 will be 3.5-4% if the price increase for health and education services in the last 6 months is excluded.

NFSC statistics showed that core inflation (excluding food, energy and commodities managed by the State but including health and education services) remained stable at less than 2% in the first 7 months of the year.

After rising for six consecutive months, the cyclical inflation component no longer increased as fast as it did in the previous period and started moving sideways, indicating that the influence on CPI of the old price cycle (health services, education, food) would stabilise in the coming months, NFSC said.

According to the General Statistics Office (GSO), the monthly CPI consecutively increased YoY since November 2015 but stopped rising in July 2016. CPI grew by 2.39% in July, lower than the 2.4% growth registered in June.

Besides this, the CPI in July 2016 rose by 2.48% from the beginning of the year, mainly due to the increase in public services, with health care up 1.32% and education up 0.14%. The increase in public services accounted for up to 56% of the total CPI growth since the beginning of the year.

During the period, food and foodstuff rose only 0.1% and 0.58%, which contributed only 3.9% and 22.1%, respectively, to general CPI.

Besides this, thanks to basic elements, including aggregate demand and production costs, that continue to be stable, the long-term inflation component still remained low, the NFSC said.

MARD stops licensing seafood shipments to US

VNA - The Ministry of Agriculture and Rural Development (MARD) will no longer grant licences for seafood shipments from exporters blocked by the European Union (EU) for using banned substances in their products.

According to a ministry decision which took effect earlier this week, the disqualified exporters could regain their licences if they submit to inspections on the banned shipments. They also need to pass tests conducted by Vietnam's National Agro-Forestry-Fisheries Quality Assurance Department (NAFIQAD).

Minister Vu Van Tam said the exporters had ceased seafood exports to the EU till there is an announcement from NAFIQAD.

In addition, businesses were required to provide their products for tests on each shipment.

Ngo Hong Phong, NAFIQAD's deputy director, said the department would update information on warnings from the EU Commission's Directorate General for Health and Food Safety (DG SANTE) and provide documents to exporters.

In late April, the directorate issued a warning against several seafood shipments of four Vietnamese exporters, saying the products did not meet EU food safety requirements.

The four exporters include Mekong Delta under Can Tho Export-Import Seafood JSC, Southern Fishery Industries Co Ltd, Foodtech & Khang Thong.

BANKS & FINANCE

After rapid expansion, banks in Vietnam settle into stability

VIR - As a senior int'l banker who has spent years overseeing Vietnam's economy and financial sector during a period of break-neck development, Dennis Hussey, the Greater Mekong Region head and CEO of ANZ Vietnam, has accumulated a deep understanding of Vietnam's banking system. He shares his impressions on how the banking sector has evolved from a state of turmoil to its present relative stability, and what the sector should do to take off into bigger markets. Trang Nguyen reports.

An industry reborn

So much has changed in the local banking sector since Hussey first worked in Vietnam in 2000. Lenders, during a decade of rapid expansion since the mid-1990s, were set up liberally to cater to the country's gigantic credit growth in the real estate sector, despite their insufficient expertise and inadequate infrastructure. The system, as a result, produced an alarming number of non-performing loans (NPL), which are still a significant problem to this day.

Changes in the sector, according to Hussey, are the result of structural reform to the banking system over the past three years. The number of domestic banks has been cut back to 35 from 44 in 2011, as weak and poorly managed banks were merged with stronger ones in a bid to strengthen and clean up the banking sector.

To reinforce the restructuring process, the Vietnam Asset Management Corporation (VAMC), was set up in 2013, with a remit to handle the prevailing NPLs at credit institutions in Vietnam. By the end of 2015, the ratio of bad debt had been reduced to 2.55% from the dangerous level of 17.21% just three years earlier.

In addition, the size of total assets across the entire banking system was reported at roughly $325 billion in December 2015, a swell of over 12% compared to the same period a year earlier and an average growth of some 15% during the past three years.

"Many banks here have emerged much stronger from the NPLs crisis, with better risk management practices, improved systems, and stronger management," said Hussey. "Several banks have developed their products and services to a very high standard, so Vietnam's consumers are benefiting.

As one of the first int'l banks to enter the Vietnamese market, ANZ Vietnam has helped lead the way in the banking sector's evolution

Integration begins

The transformation of the banking industry allowed it to stand ready to integrate into regional markets when Vietnam became a member of the ASEAN Economic Community (AEC) late last year. As part of AEC integration, a single-functioning financial market will be created to connect capital markets across the region, as well as paving the way for easier cross-border financial services.

Given the AEC lists capital market integration as a key goal, it will benefit ASEAN countries in facilitating long-term capital investment, and Vietnam, as noted by Hussey, should be a net beneficiary of regional investment flows.

"Indirectly this will benefit banks, as more long-term financing will move out of bank markets to capital markets, freeing up banks to grow their lending portfolios in other sectors of the economy."

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However, Hussey believes the Vietnamese banking sector would be fragile under AEC and is not likely to be fully liberalised as there is a recognition that banks in the ASEAN region are not uniformly ready to compete with each other within AEC.

The path for local banks, as pointed out by the CEO, is to make its transition to Basel II, or possibly even move directly to Basel IV, strengthen their capital base as needed, and continue improving their operations. "Further consolidation of local banks, in addition, is to be expected," Hussey said.

AEC will not simply profit the local banking sector or financial market, but also open up a wide range of opportunities for Vietnam. Hussey believes the country will play an increasingly important economic and socio-political role within the ASEAN region in the years to come.

Vietnam, according to the banker, has the human and political capital to emulate the development paths of Korea and Japan, and it is encouraging to see more high-value manufacturing and technology companies choosing to be based here.

Modern manufacturing is increasingly reliant upon logistics and supply chain, so we can expect to see components being manufactured across ASEAN, but finished and exported from Vietnam.

Challenges & opportunities ahead

According to Hussey, among the ASEAN markets, Singapore, Malaysia, and Thailand have already developed sophisticated modern banks, and over the years have gone through their own banking crises. This has allowed them to build stronger governance, regulation, and capital adequacy. Vietnamese banks, meanwhile, are playing catch up in terms of systems, products and overall management.

The country, in addition, already has plenty of foreign banks from all over the world. "But yes, we are already seeing new entrants this year from ASEAN and I know that there is interest from East and North Asian banks to further participate in this growing market," he noted.

Hussey's bank, ANZ, was one of the first to enter Vietnam, an astute move which has allowed them to build a long and successful history in the country. Their head start gives them unique connectivity in the region, sector expertise, and stable leadership combined with a customer-focused and solution-based approach. With such firm foundations, the bank welcomes competition and continually strives to provide the best quality services to keep their clients.

Along with the increased competition, Hussey believes there are other challenges to be overcome if local banks are to stand shoulder to shoulder with their regional peers.

Both challenges, if addressed appropriately through further improvements in the banking sector, will benefit the economy as a whole and support local companies in int'l competition.

ANZ is actively supporting Vietnamese companies expanding overseas through financing their businesses in ASEAN and in broader Asia. "We also have an active project and structured finance team who work to finance major infrastructure projects here and in the ASEAN region. Importantly, we facilitate foreign companies investing in Vietnam with access to our award-winning trade, cash, and FX services."

BANKS & FINANCE

All calm before the next M&A storm

VIR - The banking and finance sector has seen a multitude of deals taking place in various circumstances over the past years, covering all ends of the spectrum: voluntary and mandatory merger and acquisition (M&A) transactions, large and small-scale alike. However, the M&A market seems to have stalled at the outset of 2016, bringing a spell of heavy silence over the previous crescendo of forward march.

People wonder whether this quiet implies a negative turn for the market or is simply a pause to "gather momentum" to race ahead once again? There was a series of M&A agreements among banks and financial institutions in previous years, yet there has been not a single deal so far this year. The market is quiet, without even the usual odd piece of information or flitting rumour about upcoming deals. We can view this as a period when the market is settling into shape after a wave of M&As. The banking and finance sector is concentrating on restructuring so as to consolidate newfound M&A synergies.

For banks and corporations that are new to the M&A scene, this is the time to assess deals conducted, draw conclusions, and digest the accumulated experience and resources for the next wave of transactions.

The above picture provides a plausible answer for the calm in transactions and indicates an evolutionary cycle for the market. According to expectations, this cycle will be followed by a cyclical boom, reinvigorating M&A activities.

Grounds for robust M&A growth in the banking and financial market stem from objective factors, such as the foreseeable opening of the market as AEC and the State Bank of Vietnam (SBV) loosen regulations on cross-ownership, or subjective factors like financial institutions' intrinsic need to sharpen their competitive edge.

Bank divestment pressure brings activity

Circular 36, intended to reduce cross-ownership ratios among banks, prescribes that a credit institution is allowed to purchase and hold a maximum of 5% voting equity in another credit institution. Accordingly, shareholders with more than 5% will have to make a corrective divestment to bring their assets in line.

Despite several successful rounds of divestments and acquisitions, there are a number of credit institutions holding more than 5% equity in other banks or finance companies. For example, Vietcombank currently holds a 7% stake in Military Bank, 5.07% in Orient Commercial Bank, and more than 8% in Saigon Commercial Bank. Vietinbank also has a 10.4% stake in Saigon Bank for Industry and Trade, while An Binh Bank owns 8.4% of EVN Finance Company.

Given the strict provisions of Circular 36, certain banks are expected to make divestments in the near future, which points to heightened market activity in the trading of banking shares.

"Zero dong" bank restructuring

In 2015, SBV purchased Vietnam Construction Bank (VNCB), Global Petro Bank (GPBank) and OceanBank at "zero dong." Currently, these three banks have executives in their management boards approved by Vietinbank and Vietcombank, as directed by SBV. The short-term goal is to restructure these banks to stabilise

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and streamline their operations. Thereafter, SBV will determine their future, subject to the degree of success of the restructuring process.

Nevertheless, given foreign financial institutions' increasing demand to penetrate the Vietnamese financial market in the context of a set number of credit institutions, "zero dong" acquisitions can be seen as a highly coveted entrance ticket.

Previously, a foreign bank expressed interest in restructuring GPBank by purchasing its entire stake. This is also a precedent in the market that denotes a very high possibility of "zero dong" bank acquisition. The key issue here is that the operating licence attached to such an acquisition is attractive enough for foreign banks, but a takeover in this manner cannot guarantee to solve the bank's issues.

Small banks need mergers to stay afloat

According to statistics, the current banking system includes up to 12 banks that have chartered capital below VND4 trillion ($179.4 million). This is fairly modest as capital goes, especially in the context of fierce competition. Funds are needed to promote lending activities, finance trade, as well as invest in business infrastructure facilities, and information technology systems.

In the foreseeable future, small and medium banks will have to navigate their ways to sustainable growth as competition grows ever more ruthless. When it is not possible to raise funds from existing shareholders, a bank is forced to look for an adequate partner to merge with, so as to maintain a competitive edge. This trend has previously been forecast and is expected to continue.

Foreign alliances to take over the consumer finance sector

The current face of the consumer finance industry is being rapidly reshaped by entrants and newcomers. 2014 and 2015 witnessed a number of deals between banks and finance companies. Examples include Maritime Bank acquiring Vinatex Finance Company, Techcombank acquiring Chemical Finance Company, Military Bank acquiring Song Da Finance Company, and Saigon-Hanoi Commercial Joint Stock Bank (SHB) acquiring Vinaconex–Viettel Finance Company.

Following the development trend of the consumer finance market, banks may imitate HDBank by entering joint ventures with foreign financial institutions that possess excellent experience in the field.

Leveraging foreign consumer finance experience and management competency is a wise step, as domestic credit institutions do not have the adequate capacity to operate in the sophisticated consumer finance segment. In the near future, numerous M&A deals may take place to establish joint venture finance companies.

AEC brings foreign giants to the yard

The AEC took effect from December 31, 2015, and saw member countries pledge to open all service sectors, including financial services, such as banking, insurance, and securities, and allow a minimum 70% foreign ownership in local service companies. Given this pressure, stakeholders rightfully wonder about the chances of domestic banks going on sale.

As mentioned above, Vietnam has up to 12 banks with chartered capital below VND4 trillion ($179.4m). These banks' competitiveness will be impaired significantly when faced with regional rivals with deep pockets.

INVESTMENT

PVFCCO finds Japanese partners for ammonia plant

VIR - PetroVietnam Fertiliser and Chemicals Corporation (PVFCCo) will co-operate with Japanese partners to develop an ammonia (NH3) plant to meet the increasing demand of fertiliser, rubber as well as domestic petrochemical manufacturers.

Accordingly, PVFCCo, UBE Industries Ltd. (UBE), and Sojitz Corporation (Sojitz) has signed a memorandum of understanding (MOU) to study opportunities to construct a plant with a designed capacity between 1,500 and 2,000 tonnes per day in the southern region.

The consortium will carry out the pre-feasibility study within six months after signing the MOU. The project is part of PVFCCo's long-term strategy to become Vietnam's leading fertiliser and chemical producer.

PVFCCo currently operates Phu My fertiliser plant with a NH3 manufacturing workshop inside. It has increased the capacity of the workshop from 450,000 tonnes to 540,000 tonnes of ammonia per year.

PVFCCo expects that its experience in operating the workshop will prove a big advantage when investing and building a similar NH3 plant with Japanese partners.

Being Japan's leading chemical and caprolactam producer and ammonia distributor, UBE currently has manufacturing plants in Japan, Spain, and Thailand. Once the Vietnamese plant comes into operation, UBE will act as both the investor and the distributor.

Sojitz, a Japanese diversified company covering production and trade of chemicals, has been on the Vietnamese market for a long time. It has been co-operating with Vietnam's oil and gas group PetroVietnam in studying projects on gas processing, including using gas from Ca Voi Xanh (Blue Whale) oilfield to produce methanol and derivatives.

In Vietnam, apart form being an important input material for fertiliser manufacturing, ammonia is used to fuel industrial factories, including chemical and rubber factories.

The demand for ammonia in Vietnam is expected to be 581,000 tonnes per year by 2018, and increase to 681,000 tonnes per year by 2023. Vietnam currently imports 100,000 tonnes a year.

The race to invest in luxury gym centers in Vietnam's cities

VNN - Investment in luxury gym centers has become a lucrative industry in Vietnam as the demand for doing workouts at well equipped-gym centers, with luxury additional services, of wealthy people in Vietnam is rocketing.

Ten years ago, many people thought of gym centers equipped with dumbbells only, where only men developed their muscles.

INVESTMENT

Today, int'l-standard gyms have become popular in big cities in Vietnam. The race to invest in million USD gym facilities has boomed.

Le Viet Quy, who has been a member of a big fitness and yoga center in HCMC for 3 years, said that he chose this modern center as it is part of a nationwide system of fitness and yoga centers so he could do workouts during his business trips to other cities. Though he had to pay several thousand USD for the membership in advance, the money is worth it because he can enjoy luxury services at well-equipped gyms.

Ngo Manh Duy, an office worker in District 7, HCMC, has just changed from a small, old-style gym center near his home to a big one in District 2.

Duy said the membership charges at the gym near his home are very cheap, only VND200,000-VND400,000 ($9-18)/month but it is old, poorly-equipped and always smells. There are only dumbells, several weight machines and no sauna service.

In Vietnam, the model of modern fitness centers appeared about 9 years ago, with several popular names like California Fitness & Yoga (owned by CMG, USA), which opened its first gym center in 2007, Getfit Gym & Yoga in HCM City and Elite in Hanoi, which opened their first gyms in 2010. In 2012, a brand from Germany joined the market - Fit24. The latest newcomer is Fithouse in HCM City.

If the investment in a small, old-style gym center of about 200-300m2 is VND500 million ($23,000), it is millions of USD for modern ones, which are usually 2,500sq.m. However, investment continues to flow into this new, lucrative industry.

In January 2014, the largest financial conglomerate in Japan - Mizuho Asia Partners (under Mizuho Bank) – paid $15 million to acquire 10% stake in California Fitness & Yoga chain. Only 18 months later, the centers of this system doubled. This brand is now the "chicken that lays golden eggs" for CMG with 23 centers in 7 provinces.

Five years ago CMG began diversifying fitness services to serve all kinds of customers. In addition to California Fitness & Yoga centers (for customers aged 25-35), CMG owns 7 other centers, with brands California Yoga Plus (specialized in Yoga); California Centurion (for middle aged members); UFC Gym (martial art coordination), and California Kids (sport for children).

Other brands are also expanding their networks. Elite Fitness has reached its hand to HCM City, after building 6 centers in Hanoi. Fit24 currently owns four centers. Chairman of the Getfit Gym & Yoga Nguyen Huu Phuc confirmed the intention to open a few more centers from now to 2020, with an average growth rate of 20-30% per year. Phuc said although the high-end gym model is developing very fast in Vietnam, some investors failed due to lack of experience and qualified human resources.

Experts said that the model of high-end gyms will sustain high growth rates, about over 50%. Many international brands will come to Vietnam. The reason is that the density of modern gyms is still low, compared with Singapore, Thailand and Hong Kong (China).

At these places, one can find a modern gym center within a radius of 1km while each district of HCMC has only a few modern centers.

According to data of the International Health, Tennis and Sports Clubs Association (IHRSA), there were more than 180,000 fitness clubs worldwide in 2015, attracting 144.7 million members, with sales of about $84b.

ENTERPRISES

Why doesn't Vietnam have large businesses?

VOV - Many newly emerged businesses have been sold to foreign investors as soon as they became better known, and before they could become powerful conglomerates.

More than 90% of Vietnamese businesses are small and Vietnam does not have large corporations which can act as pillars in most business fields.

The rumors about FPT selling its retail chain are true. Sources said that Vietnam's largest information technology group, together with a consultant, is taking necessary steps to sell one of its most important subsidiaries. The partners interested in the company are all foreign entities.

The deal, when wrapped up, will add one more item to the list of the Vietnamese enterprises sold to foreign investors.

In late 2014, Kinh Do Group surprised the public with the announcement to sell 80% of its sweets manufacturing division to Mondelez Int'l. The deal brought US$370 million to Kinh Do's owner, a large sum of money for any Vietnamese enterprise. However, the deal has put an end to a purely Vietnamese brand which existed for 20 years long.

In late 2012, Prime, the then-Number 1 ceramic tile was transferred to Thai Siam, after the group paid US$240 million to acquire 85% of stake.

Many other Vietnamese brands, which were once the pride of Vietnamese, have fallen into foreign hands. Da Lan, a toothpaste brand of Trinh Thanh Nhon, was sold by the businessman to Colgate Palmolive for US$3 million. Diana of Do Minh Phu was transferred to Japanese Unicharm at the price of US$184 million, while AAA insurance of Do Thi Kim Lien was sold to Australian IAG.

Even emerging names associated with Vietnamese culture and lifestyle such as Pho, Highlands Coffee and Huda Beer have also been sold.

In the case of FPT, if the plan is implemented as designed, another Vietnamese big retail name would be sold to foreigners. Nikkei has reported that FPT is now offering to sell its retail and distribution division at US$120 million.

Analysts commented that with more and more Vietnamese businesses sold to foreign investors, the market has been losing purely Vietnamese brands, while the economy lacks powerful Vietnamese brands.

After Da Lan and P/S, two Vietnamese toothpaste brands were sold, the toothpaste market has been flooded with products bearing foreign brands. And since Kido was sold to the US company, there has been no Vietnamese brand strong enough to compete with foreign sweets brands.

An analyst commented that Vietnamese businesses tend to sell their companies after certain periods of development instead of continuing to develop the businesses into powerful conglomerates.

He said that limited financial capability and corporate management skills do not allow

ENTERPRISES

Vietnamese businesses to run companies when they become large.

Vietnamese brands look to conquer global markets

TTN - Ambitious Vietnamese companies are overcoming challenges to bring their products to the global market

In June 2016, Vietnam Dairy Product Join Stock Company (JSC), more popularly known as Vinamilk, successfully introduced made-in-Vietnam products to the US, with its condensed milk and condensed creamer hitting the shelves in Arizona and California supermarkets.

The success marked an important progression in Vinamilk's plan to bring Vietnamese products to the world.

Vinamilk accomplished the feat through Driftwood Diary, its subsidiary in California.

The Vietnamese dairy company's purchase of a struggling dairy factory in Driftwood surprised many, considering the US is a dairy powerhouse, with thousands of brands competing in a ruthless market.

In 2013, despite concerns about the risk of the investment, Vinamilk bought 70% of Driftwood Diary's shares at US$7 million, recognizing the long-established company's potential as one of the dominant milk suppliers for schools in northern California.

After two years, Driftwood began to generate profit, prompting Vinamilk to buy 100% of Driftwood's shares at the end of 2015.

In addition to the US, Vinamilk's products are now present in forty countries and territories in the world, generating US$250 to US$270 million in revenue every year.

Mai Kieu Lien, Vinamilk CEO, said that in order to achieve its goal of becoming one of the top 50 milk companies in the world, Vinamilk considers investment in foreign countries one of its primary strategies in coming years.

Duc Thanh Wood Processing JSC, a wood manufacturer specializing in the production of kitchenware and furniture, is also exporting its products to 45 countries, gaining a firm foothold in 20 markets, including many that have high safety standards, including Japan, the Republic of Korea, and Europe.

Having just finished a kitchenware order for a Korean customer, Le Hong Thang, Duc Thanh CEO, is now processing orders from Colombia and Myanmar, two newly-found markets.

"It is getting much tougher given price competition and high expectations from customers," Thang said, who has still set an ambitious goal of US$12.5 million in export for this year, a 10% increase from 2015.

Ton Dong A JSC, another Vietnamese company with global dreams, has just exported 8,000 tons of galvalume steel sheet valued at US$5.5 million to the US in mid-August.

This is one of the batches in Ton Dong A's US$60-million deal with a customer in 2016.

In the first half of this year, Ton Dong A's exports topped US$45 million, US$55 million short of its goal of US$100 million for 2016.

MARKET & PRICES

HCMC opens the first used car market

The first used car market in Ho Chi Minh City

VNS - HCMC has opened its first secondhand automobile market where sellers and buyers can meet directly to discuss purchases.

The secondhand market, which is common in the US and Europe, helps sellers and buyers save time and money as there is no commission.

Sago Auto, which recently opened on 29 Nguyen Dinh Chieu Street in District 1, has an area of 5,000 sq.m and can accommodate 100 4-seat and 7-seat autos.

"The secondhand auto market aims to connect sellers and buyers in the speediest and most time-saving way," Tran Thai Hoa, director of Sago Auto.

In the past, buyers often sought secondhand cars online, spending time searching for information and looking for cars in different places. Sellers also had to do the same.

Sellers of secondhand cars at Sago Auto pay a daily fee of VND100,000 (US$4.5) for at least seven days to park their car.

The cars will be checked and a price set by Sago's technicians. All information will be placed on the front window of the car along with an owner's telephone number.

Sago Auto also provides services for purchasing a car, including checking the origin, examining the technical situation, providing financial and payment services, and issuing price certificates.

Buyers can make phone calls and negotiate prices directly with sellers. All payments are carried out through a temporary banking account in order to limit risks. Money is transferred to sellers when everything is completed.

Civil engineer Vo Huy Nam, who is willing to spend VND600 million ($27,000) on a car, said he had been looking for a secondhand car for a long time.

"I spent a lot of time looking, but the prices were very high. Coming here, I think I can find a car at a reasonable price," Nam said.

"The price is good because monthly parking fees in district 1 are VND2 – 2.5 million ($90-125)," Hoa added.

To increase turnover, Sago Auto will open an auto repair garage. "We plan to open a website to support our customers," he added.

The secondhand market has all kind of cars, from luxury to basic models, with prices ranging from VND225 million to 2 billion ($10,000 – $90,000).

MARKET & PRICES

Thailand becomes "King of Cement" in Vietnam

VOV - Thailand based Siam City Cement Public Company (SCCC) has agreed to purchase a 65% stake in cement manufacturer Holcim (Vietnam) (HVL) from French headquartered LafargeHolcim, according to an SCCC statement.

It said the transaction is subject to customary regulatory and shareholder approvals, as well as to a right of first refusal of LafargeHolcim's joint venture partner, and is expected to close in the fourth quarter of 2016.

Shareholders of SCCC are expected to vote and give final approval at a specially convened meeting within the next few weeks, said a company official who asked not to be named.

Top executives from SCCC have not commented publicly on the details of the agreement.

The deal valued at US$856 million is being advised by Linklaters. The remaining 35% stakeholder in the HVL joint venture is the Vietnam Cement Industry Corporation, who is not expected to object to the transaction moving forward.

The source of funding for the transaction is via credit facilities support from the Bank of Tokyo-Mitsubishi UFJ, Ltd with a 12-month term.

HVL currently operates one integrated plant and four grinding plants with an annual cement capacity of 6.3 million metric tons. HVL is also a leading ready-mix concrete producer operating seven plants in the south of Vietnam.

In 2015, the company recorded a net profit of US$25 million with revenues hitting US$247 million.

According to SCCC, the acquisition of HVL will allow it to diversify its cash generation from higher growth markets and represents a unique opportunity for higher total shareholder return on equity (TSR) and results in a faster growth in its market capitalization.

In addition, HVL will serve as additional captive channel for SCCC's clinker in Vietnam and reduces its dependence on conventional export markets. Several synergies will also be created, such as procurement from pool purchasing, increase utilization of IT system and technical knowledge sharing.

The HVL deal is the latest acquisition effort by SCCC this year. In July, SCCC bought a 98.95% stake in Sri Lanka's Holcim (Lanka) and its subsidiaries. The deal was also advised by Linklaters.

In another deal, SCCG earlier agreed to acquire an 85% stake of Prime Group (Vietnam) shares for a price of US$217 million.

The latest deal to acquire control of HVL clearly illuminates SCCC's goal to control cement manufacturing market in Vietnam once all of the formalities are complete and the transaction goes through.

It leaves little doubt in the minds of industry circles as to who the uncrowned king of cement in Vietnam is.

LEGAL UPDATES

New regulations on inspection of bidding

VLO - Circular No. 10/2016/TT-BKHDT dated July 22nd, 2016 of the Ministry of Planning and Investment on guildelines for supervision and inspection of bidding.

This Circular provides for competence to, procedures for inspection of bidding, regular and irregular inspections of bidding and training in bidding

Accordingly, the agencies that are competent to conduct the inspections of bidding are the Services of Planning and Investment and agencies that are charged with the inspection affiliated to Ministries, Ministerial-level agencies, Governmental agencies, other agencies of central Government

Methods of inspection include direct inspection, which is conducted at enterprises' premises by setting up an inspectorate, and inspection through the request for making report

This Circular takes effect from September 9th, 2016 and replaces Circular No. 01/2011/TT-BKHDT dated January 4th, 2011.

How to calculate withholding tax on tax - exclusive counseling price?

Official letter No. 5732/CT-TTHT dated June 21st, 2016 of the Department of Taxation o Ho Chi Minh city regarding tax policy.

The document is to reply to problems relating to the case in which an executive office of a foreign contractor which registers to pay tax by the combine method signs a counseling contract at a tax – exclusive price (value added tax (VAT) and enterprise income tax (EIT)), concurrently it is repaid personal income tax (PIT) incurred by foreign experts

Accordingly, upon calculation of EIT, the executive office must convert the revenue, which includes counseling service charges and PIT incurred by foreign experts repaid by the investor, into taxable revenue according to point b1 Clause 1 Article 3 of Circular No. 103/2014/TT-BTC and apply the tax rate of 5%

When calculating VAT, it shall apply the tax rate of 10% and value added tax – exclusive revenue is equal to the above – mentioned enterprise income taxable revenue.

Non-residents who perform services outside Vietnam are exempt from both PIT and withholding tax

Official letter No. 52820/CT-TTHT dated August 11th, 2016 of the Department of Taxation of Ha Noi city regarding tax policy.

According to Article 1 of Circular No. 111/2013/TT-BTC , non-residents shall only pay personal income tax (PIT) on incomes generated in Vietnam

On the other hand, under Clause 3 Article 2 of Circular No. 103/2014/TT-BTC, a foreign individual who earns income from services provided and consumed in Vietnam shall be exempt from withholding tax

Accordingly, in the case a company signs a contract to hire a foreigner who is the non-resident in Vietnam and is not present in Vietnam to provide the company with some services outside Vietnam, this person's incomes generated outside Vietnam shall not be subject to PIT and withholding tax.

HIGHLIGHTS

The underground race of casino developers heats up

VNN - Though the government decree on casinos has not yet been promulgated, the race for operation licenses has heated up in the billion-dollar market.

Prof Ha Ton Vinh said at a conference on investment in the Vietnamese hotel & resort market held days ago in HCM City that his research showed that Vietnam is a very attractive destination for casino developers.

Vinh said a series of casino projects located in many provinces from the north to the south are awaiting licenses.

Recently, the information that a group of **US investors, including Steelman Partners, Cantor Fitzgerald and Weidner Resorts** proposed to develop a real estate project capitalized at $4b in HCMC has led to the prediction that one casino would be built there.

The prediction was based on the fact that most investors in the group are operating in the casino field. Besides, the investment capital of $4b which the investors suggested is exactly the required minimum investment capital for investors to run a casino project.

However, Steelman Partners, Cantor Fitzgerald and Weidner Resorts are just new names. A lot of other investors have queued up for casino licenses since 2014, when the draft decree allowing Vietnamese to go to licensed casinos was introduced.

These include Sun Group and Vingroup, the two largest privately run Vietnamese conglomerates in the real estate sector & tourism.

Sun Group, well known for cable car projects, has asked for permission to invest in the casino in Van Don, Quang Ninh province.

Since Van Don is a remote area with underdeveloped transport infrastructure, Sun Group will build an airport there to make it easy for players to come to the casino.

Meanwhile, a source from the Ministry of Planning and Investment said **Vingroup** has been preparing for the casino project on Phu Quoc Island for two years. It is highly possible that the project would become operational soon, because Phu Quoc is the first location officially designated to have casino.

Besides, there are some other potential investors such as Banyan Tree Holdings from Singapore, the developer of Laguna Lang Co in Thua Thien-Hue province. The group in 2014 asked for permission to build a casino at the resort.

Meanwhile, **Hung Thinh Real Estate** Investment has proposed a casino in Cam Ranh, Khanh Hoa province.

If all the proposed projects get licenses, Vietnam would have at least 13 casinos.

A survey conducted by VASS (Vietnam Academy of Social Sciences) showed that 2/3 of polled people said they would go to casinos if allowed.

After China, will Uber fail in Vietnam?

VNN - After being acquired by Didi Chuxing in China, Uber may have to take similar moves in Vietnam and other Southeast Asian countries, experts have said.

Uber is the latest company joining the list of US conglomerates that failed in the Chinese market, after Yahoo, Amazon, Ebay, Microsoft.

HIGHLIGHTS

On August 1 Didi Chuxing announced it would acquire Uber's business in China to create a company with a value of $35b. Uber and its investors will hold about a 20% stake in the new firm.

Uber entered China in 2014, when it was had become wildly popular worldwide.

However, after a period of stable operations in 60 cities in China, Uber gradually entered a war against a local transport firm - Didi Chuxing.

In two years, though it spent up to $2 billion to build infrastructure for the company's operations in China and to lure local customers and drivers, Uber still failed to grab market share from its local rival Didi Chuxing.

Statistics showed that Didi Chuxing held up to 85% of the taxi app market while Uber had only 8%.

Investors called for Uber to stop the fight and sell itself.

However, Professor William Kirby of the Harvard Business School argued that Uber did not withdraw from China because of competition with Didi, but because of regulations on taxi app firms which are about to be issued by the Chinese government.

It is said that the new regulations, which are much less harsh than the initial draft, will force taxi app firms to merge with local taxi companies. Moreover, Uber will also have to ask for certificates in all areas where it operates while online and offline services will be managed separately.

After its withdrawal from China, Uber will focus its operation in other markets, especially Southeast Asia, including Vietnam. However, like in China, Uber is facing many difficulties in Vietnam.

The first is the strategic business orientation. Like other markets, and China, in Vietnam, Uber spends a lot to support drivers and give promotions to customers.

Uber entered Vietnam in 2014 and still maintains a significant level of support for the driver (accounting for up to 50% of its revenue), and constantly offers discounts and free trips to users and new users. Its failure in China shows that this support is not a sustainable business strategy.

Due to a lack of a clear policy, Uber is also facing many legal issues in Vietnam.

Last October, following its rival Grab, Uber submitted to the Vietnamese Ministry of Transport a pilot scheme of operation.

While Grab's plan was approved by the Prime Minister on October 19th 2015, Uber's plan was rejected, reasoning that Uber must have a legal person in Vietnam to sign service supply contracts with transport business partners.

The Ministry of Transport asked Uber to revive its plan but so far Uber has yet to complete the scheme.

Only Vinasun and Grab are permitted to have taxi app services in Vietnam.

To date, the Government of Vietnam has not yet collected taxes from this firm. Uber Vietnam Co. Ltd confirmed that it only provides management and market research services to support the operation of the parent company - Uber B.V. in the Netherlands.

Meanwhile, Uber B.V. Netherlands, said it operates in a trans-border form under Vietnam's commitments to the World Trade Organization (WTO). As it provides software across the border, it should pay taxes under the laws of the government of Netherlands.

A major challenge of Uber is facing opposition from traditional taxis and its rival Grab.

While Grab has cooperated with many local taxi firms, Uber has become an "enemy" of these firms. The transport and taxi associations have repeatedly asked the Vietnamese Government to

HIGHLIGHTS

terminate the operation of Uber taxi in Vietnam.

Commenting on the deal between Uber and Didi Chuxing, Anthony Tan - Grab CEO - confirmed in a letter to thevGrab team in Southeast Asia: "With the deal in China, we expect Uber to turn more attention and divert resources to our region. But we have seen that when the local champion stays true to their beliefs and strengths, they can prevail. We see this happening in China, and it will be the same here. They've lost once, and we will make them lose again."

In another move, sources said that after acquiring Uber in China, Didi Chuxing and Softbank Group Corp. planto invest additional $600m in Grab.

So, the future ahead for Uber in Southeast Asia and Vietnam will not be easy.

Japan firms invest in local property sector despite potential risks

SGT - Many Japanese companies are aware of potential risks in the Vietnamese real estate sector but they have an increasing presence in this market, according to Tokyo-based Recof Corporation, a consultant on merger and acquisition (M&A) deals.

Masataka Sam Yoshida, senior executive for the Vietnam market at Recof, told the Vietnam M&A Forum 2016 in HCMC last week that M&A deals involving Japan's companies on the local market rose last year following a slowdown a year earlier.

He said with a golden population structure and rising incomes, Vietnam has emerged as an attractive destination for Japanese businesses in sectors like retail, consumer goods and finance, and that they are keen on indirect investments here.

Yoshida noted Japan's M&A activities in Vietnam can now be found in the real estate sector, which Japanese companies ignored in the past, as they are ready to take risks.

"JP businesses were not interested in the housing sector around 20 years ago but things have changed. This sector is turning very attractive," he said, adding that besides HCMC and Hanoi, Japanese firms are paying attention to the central region, particularly Danang City.

Japanese companies are normally prudent, so Vietnam's real estate sector remains risky in terms of pricing, speculation and a lack of transparency.

Japan applies higher technical standards than Vietnam does and they are uncertain whether those standards can work in Vietnam or not. However, experts said Vietnam's property market holds greater growth potential than some other markets as it has been recovering over the past 3 years.

This year, the real estate market is forecast to maintain strong growth momentum but experts said its growth is not sustainable.

In reality, Japanese enterprises and investment funds have participated in a couple of realty projects in Vietnam since last year.

According to Recof statistics, VN ranked second in Southeast Asia in terms of Japanese involvement in M&A deals in 2015 and the first seven months of 2016.

Biz environment is seen remaining positive this year and beyond while the Trans-Pacific Partnership (TPP) trade pact and the ASEAN Economic Community will generate more business opportunities in Vietnam. Besides, the amended Housing Law 2014, taking effect in early July 2015, allows foreigners to own properties in VN. Recof predicted more JP enterprises would come to VN for investment in the domestic property market in the coming time.

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