

VIETNAM

# BUSINESS REVIEW

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*The second wave of stopping advertisement on YouTube*



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## ECONOMY

### Trade surplus: Joy and anxiety

VNN - The General Statistics Office (GSO) has announced there was an excess of exports over imports of \$2.8b in the first 11 months of the year. However, this was overshadowed by the fact that most of the reports came from foreign invested enterprises (FIEs), while domestic enterprise contributions were modest.

In the first 11 months of the year, FIE exports accounted for 72.6% of total export value of Vietnam, while imports accounted for 60%. The trade surplus from FIEs reached \$26.2b, up 33% over the same period last year. Samsung, Foxconn, LG, Panasonic and Intel are among the biggest exporters. Samsung Vietnam alone plans to earn \$50b from exports. It exported \$40 billion worth of products last year.

A report from CIEM (Central Institute for Economic Management) shows that the country's electronics industry has been witnessing a high growth rate of over 30% per annum since 2013.

Vietnam has become the 12th largest electronics exporter in the world and the third in South East Asia.

However, the problem is that domestic enterprises are mostly 'out of the game'. In 2016, FIE electronic exports accounted for 95% of total electronic exports and 96.6% of phone and phone accessories exports.

FIEs are also major exporters in textile & garments and footwear, key export items of Vietnam.

FIEs make up 60-65% of total value of the textile & garment industry. The business field attracts a high amount of FDI with \$5b worth of capital registered in the last five years, according to FIA (Foreign Investment Agency).

Similarly, in the footwear industry, according to MOIT (Ministry of Industry and Trade), more than 80% of export value belongs to FIEs.

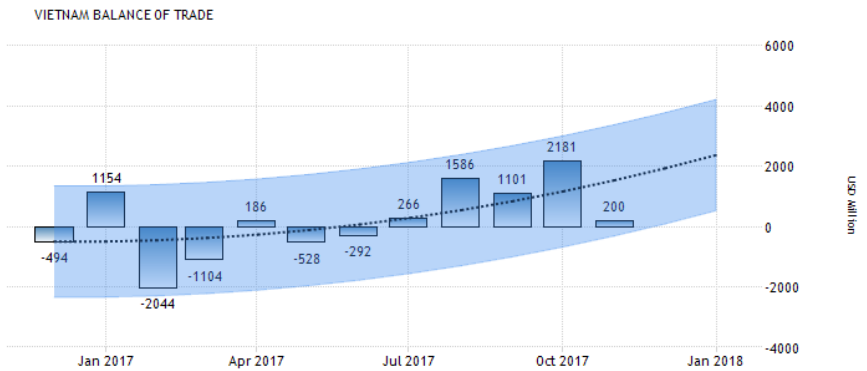
FIEs lead in the top five export business fields. In a survey conducted by VCCI, seven dong out of every 10 dong worth of export turnover is from FIEs.

A report from GDC (General Department of Customs) found that 90% of turnover from machine, equipment and components is from FIEs.

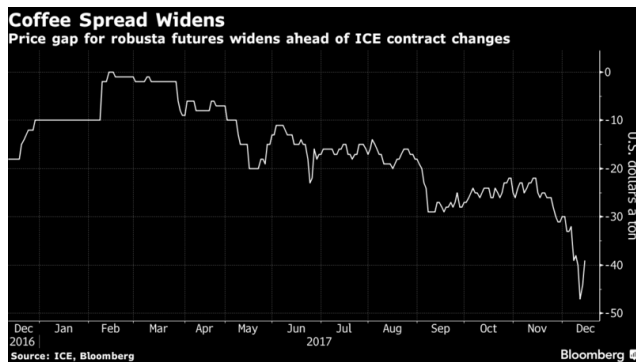
FIEs lead in the top five export business fields. In a survey conducted by VCCI (Vietnam Chamber of Commerce and Industry), seven dong out of every 10 dong worth of export turnover is from FIEs.

Meanwhile, Vietnamese enterprises have great advantages in the export of farm produce and seafood. Most of the names in the list of top 10 seafood exporters are Vietnamese companies.

The 'Vietnamese hallmark' can also be seen in the export of wooden furniture (Vietnamese exports account for more than 50% of total export turnover in the industry), cashew nuts (export turnover in the first 11 months far exceeded the turnover in 2016), and vegetables & fruit (\$3.2 billion).



## Vietnam coffee trade slows as buyers bet on bigger discounts



Bloomberg - Coffee trading is slowing in Vietnam, the top robusta producer, on expectations that a larger harvest and changes to the London futures contract next year will give buyers bigger discounts.

Roasters and traders are delaying purchases on bets that a bigger crop currently being gathered will push prices lower, according to traders attending the Asia International Coffee Conference in HCMC last week. At

the same time, changes to ICE Futures Europe's robusta contract next July are expected to widen the discount of Vietnamese beans versus futures.

Vietnam's robusta crop will probably rise 16% to 28.8 million bags in the season that started in October as output rebounds after rains hurt last year's harvest, Export Trading Group estimates. The recovery comes as more output in Brazil next year is expected to add to supplies and help switch the global market into a surplus, Eric Lull, a coffee research manager at the company in Geneva, Switzerland, said at the conference.

The market is also bracing for changes on the London bourse. New rules mean traders bringing coffee from producing countries to ICE stockpiles will have to pay for the loading out of beans from warehouses as well as rent until the end of the delivery period. The higher costs are likely to feed through to futures, with a wider spread between July and earlier-dated contracts.

Spreads are already being impacted, with the May contract's discount to July futures widening about 43% in the past three weeks. The rule changes should also lead to bigger discounts in the physical market for Vietnamese beans compared with bourse prices.

As traders try to work out what are fair values for spreads and physical discounts, some roasters are looking to benefit by locking in futures prices and postponing physical bean purchases from Vietnam until later - when discounts might be more attractive.

### Stockpile Impact

For traders, higher costs may mean they won't earn as much from carrying - a strategy where beans are bought and stored before being sold later for a profit. That will potentially lead to a plunge in stockpiles backing futures contracts and leaving the market at risk of a "permanent squeeze," Loots said.

Some traders at last week's conference were concerned about the risk of falling inventories. Others said that prices of earlier-dated futures would at some point have to rise to attract supplies into warehouses if beans are needed in consuming nations. Bigger discounts may not emerge if some warehouses cover part of the loading-out costs to retain business.

Robusta and arabica-coffee futures have been among this year's worst-performing major commodities tracked by Bloomberg. Global coffee supplies are forecast to exceed demand by 5.5 million bags in 2018-19, reversing a 3.1-million bag shortage this season, ETG forecasts.

## BANKING & FINANCE

### ThaiBev magnate extends SE Asia push with \$4.8 billion Sabeco deal

Reuters - Thai Beverage (TBEV.SI) has won an auction to buy a majority stake worth \$4.84 billion in Vietnam's top brewer Sabeco SAB.HM, a lofty deal that adds a major asset to the beer-to-property empire of Thai magnate Charoen Sirivadhanabhakdi.

The deal is a big step for Charoen, the son of a Bangkok street vendor, who is emerging as one of Asia's biggest power players in brewing. He dominates his home market with Chang beer and owns



Singapore's Fraser and Neave Ltd (FRNM.SI). The Sabeco stake will give him control of brands like Saigon Beer and 333.

The Sabeco deal will also help Thai Beverage (Thai Bev) tap into Vietnam's beer market, worth about \$6.48 billion last year, where a young population and booming economy are an attractive lure, despite political resistance, a high minimum bid price and a cap on foreign ownership.

Thai Bev's local unit, Vietnam Beverage Co Ltd, was named winner of the 54% Sabeco stake on offer at the auction on Monday after global brewing groups stayed away. It barely had any competition as the other investor, a Vietnamese individual, bid for only 0.003%.

Late on Sunday, Singapore-listed Thai Bev had said that the Vietnamese unit had submitted the registration form to participate in the bidding.

Vietnam Beverage is owned by Vietnam F&B Alliance Investment Company, which is 49-percent owned by BeerCo Limited - an indirect but wholly-owned unit of Thai Bev, official documents about the companies showed.

The government had set a minimum sale price of 320,000 dong or \$14.1 per share for Sabeco, formally known as Saigon Beer Alcohol Beverage Corp, whose shares have jumped almost three fold to 309,200 dong since its listing a year ago.

That priced the target at about 36 times core earnings, more than double the trading multiples for global peers, indicating Charoen had to pay a hefty premium to secure the prize.

Thai Bev, controlled by Charoen, was keen to buy Sabeco in a bid to expand outside its home market, sources told Reuters.

Sabeco's foreign ownership is capped at 49%. With 10% already in foreign hands, only 39% was on the table for overseas buyers at Monday's auction. Local bidders could bid for a majority stake of up to 54%. Heineken (HEIN.AS) holds a 5% stake.

### Mobile World officially acquires Phuc An Khang Pharmacy

VIR - Tran Kinh Doanh, a member of the Mobile World Group (MWG) Board of Directors, confirmed that the company has acquired Phuc An Khang Pharmacy to officially set foot in the pharmaceutical sector.

The business deal has been completed and the partnership has launched a new brand name—An Khang Pharmacy.

This is the first time a representative of MWG confirmed the acquisition of the Phuc An Khang pharmacy chain. Earlier, there were wide-scale speculations and some stock companies have produced analysis of this possibility.

Phuc An Khang was established in May 2006 with a total of 14 stores in Ho Chi Minh City. Meanwhile MWG planned to jump into pharmaceutical retail at the beginning of this year and expected to expand to 50 or 60 stores next year.

Also, at this moment, MWG has been acquiring shares of Tran Anh Group (TAG). Doanh said that MWG has started to take over the business, IT system, and accounting departments, and sent key personage to manage TAG. The total M&A funds of MWG reached VND2,500 billion (\$110 million).

### Over 10 overseas firms eye strategic stakes in PV Oil

BizLIVE - The Vietnamese government will offer a 44.72% stake in PV Oil to strategic investors. As many as 19 companies have shown interest in becoming a strategic investor of PetroVietnam Oil Corporation (PV Oil). Among them, three fourths are foreign big names in the oil and gas industry.

According to a recent government-approved privatization plan, the government plans to unload up to 64.9% in PetroVietnam Oil Corporation, known as PV Oil, to cut its holding to 35.1% in a bid to attract buyers

Gov't expects to rake in at least 2.77 trillion dong (\$122m) from selling 206.85 million shares, or a 20% stake, at a minimum price of 13,400 dong (\$0.59) apiece at a long-awaited IPO scheduled for Q1 next year.

In addition, a 44.72% stake will be offered to strategic investors. Foreign investors are allowed to buy up to a 49% stake in the PV Oil, the second largest fuel retail company in the Southeast Asian country.

Potential strategic investors must be profitable in the past two years and have a registered capital of at least 2 trillion dong (\$88.1m). They are required to hold PV Oil shares during at least 10 years after becoming strategic partners, according to the plan.

The strategic investors must also commit to buy petroleum products churned out by Binh Son Refining and Petrochemical Company Limited (BSR) in the central province of Quang Ngai and Nghi Son Refinery and Petrochemicals LLC in Thanh Hoa province.

## INVESTMENT

### AEON MALL Haiphong project to be kicked off in second quarter of 2018



VIR - Japanese shopping mall developer AEON MALL, the investor of AEON MALL Haiphong in collaboration with the Haiphong People's Committee, has accelerated completing the procedures in early 2018 so that the construction can be started in the second quarter.

At the working session with leaders of the Haiphong People's Committee, Iwamura

Yasutsugu, general director of AEON MALL Vietnam, affirmed that the company signed a contract in principle with Viet Phat Import-Export Trading JSC to develop the project which is expected to create about 2,000 new jobs for locals.

Yasutsugu urged the Haiphong People's Committee to accelerate the site clearance so that the construction can be implemented on schedule.

The city will complete the site clearance this month, simultaneously completing the approval of procedures in January 2018. In addition, the city is accelerating the construction of transport infrastructure, including the Ho Sen-Cau Rao 2 Route in 2019, before Aeon Mall Haiphong comes into operation.

Earlier in September, AEON MALL Vietnam signed a memorandum of understanding (MoU) with Haiphong Investment-Trade-Tourism Promotion Centre to develop the project.

Under the agreement, AEON MALL Vietnam will invest, build, manage, and develop an integrated shopping mall and provide related services, including catering, amusement parks for children, as well as rental space, counters, and shelves, all constructed, installed, and decorated.

The \$180-million (approximately VND4 trillion) facility covers an area of 9.3 hectares at the Ho Sen-Cau Rao 2 Route and will be the company's third shopping mall in the north and the sixth one in Vietnam.

Scheduled to come into operation in 2020, the Haiphong mall is expected to attract over 13 million visitors every year from Haiphong and the surrounding provinces, such as Quang Ninh, Hai Duong, Thai Binh, and others. The mall will not only be a place to improve shopping convenience for customers, but also a multi-purpose complex and a place for cultural and social activities for all ages, with many integrated entertainment and educational facilities.

### Japan keen on series of transport projects in Vietnam

BizLIVE - Vietnam is striving to expand its transport network to accommodate trade and economic growth.



The Japanese government has shown interest in participating in or collaborating with the Vietnamese side in developing a wide range of sizable transport projects in Vietnam as the Southeast Asian country seeks to beef up its infrastructure network.

At a meeting with the Vietnamese Ministry of Transport in Hanoi on December 12, State Minister of Land, Infrastructure, Transport and Tourism Takao Makino affirmed that the Vietnamese government is willing to share its experience and support Vietnam in developing the transport system.

Japan hopes to join Vietnam in a number of projects such as the feasibility study of the Long Thanh International Airport, the expansion of the Tan Son Nhat Airport, the North-South high-speed railway, a number of segment of the North-South expressway under the public-private partnership format, and the Hanoi-Vientiane expressway, Makino said.

Further, Japan wants a stake in other projects such as the Lach Huyen sea port in Hai Phong city, and speed up urban railways in Hanoi being funded by China and France, the Makino added.

Vietnamese Transport Minister Nguyen Van The highly appreciated Japan's interest and pledged to create favorable conditions if Japanese contractors win contracts in Vietnam.

Vietnam is one of the biggest Asian spenders for infrastructure as the country strives to expand its transport network to accommodate trade and economic growth.



## ENTERPRISES

## The second wave of stopping advertisement on YouTube



VIR - Along with **Vinamilk** and **Vingroup**, numerous Vietnamese brands have stopped advertising on the world's largest online video site YouTube after their advertisements were linked to clips containing poor content.

In the latest move, Vietnamese dairy giant Vietnam Soya Products Company (**Vinasoy**) has decided to pull their advertisements from YouTube because its brand's advertisement was linked to a clip the contents

of which are not suitable for children, bearing obscene and pornographic comments.

Previously, after finding that its brand was appearing on clips with improper content on YouTube, **Vietjet** sent a dispatch to Google reminding them that if the company cannot prevent such incidents, Vietjet will cut their telecommunications co-operation with Google.

In addition, **FrieslandCampina Vietnam**, the owner of the Dutch Lady brand, complained that it is unacceptable to link its brand with objectional content, seriously impacting its reputation as well as the 145-year-old brand.

Earlier in November, other brands like **Lidl**, **Mars**, **Cadbury**, **Adidas**, **Deutsche Bank**, and **Hewlett-Packard** flat out stopped advertising on YouTube after their ads were linked with clips containing poor content.

Previously, other brands suspended their advertisements on YouTube after their logos or ads were showed during clips containing slanderous or anti-government content.

According to statistics from the Authority of Broadcasting and Electronic Information under the Ministry of Information and Communications (MIC), as of November 2017, two million clips on YouTube had vulgar content.

The authority received official dispatches from Vietnam Airlines, Mead Johnson Nutrition Vietnam, and Vinamilk, referring to an incident when their brands appeared in clips with pornographic, slanderous or anti-government content on YouTube.

Deputy director of the Authority of Broadcasting and Electronic Information Le Quang Tu Do said that the authority needs to remove clips with poor content from online video sites. Simultaneously, MIC needs to build channels with strictly moderated contents on YouTube.

Regarding legal firms, lawyer Vu Thai Ha, chairman of YouMe Law Company, said that in order to thoroughly resolve linking enterprises' advertisements and clips with poor content, enterprises should continue to boycott and stop advertisements on YouTube to create pressure on online advertisement service providers to change.

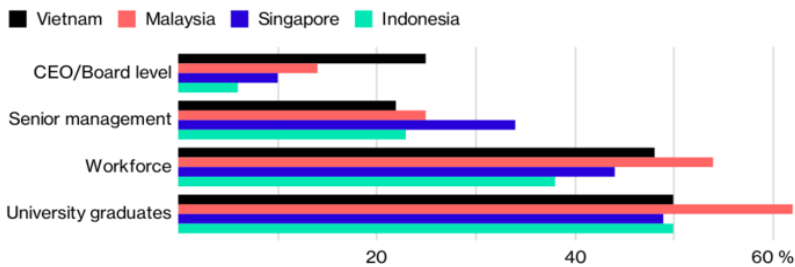
## Vietnamese women crack the corporate glass ceiling

Bloomberg - Vietnam is a bright spot for gender diversity in Southeast Asia, with a recent report showing the country has a higher representation of women serving as board directors and chief executive officers than Malaysia, Singapore and Indonesia.

Some 25% of CEOs or board directors in Vietnam are women, according to September data from the Boston Consulting Group. Women hold 14% of CEO or board level positions in Malaysia and 10% in Singapore. Indonesia came in last among the four countries, at 6%.

### Women on Top

Female participation at the CEO/board level highest in Vietnam, lowest in Indonesia



"Women in Vietnam lead or own many SMEs and large enterprises which provides positive, visible and diverse role models to other women," said Ian Grundy of Switzerland-based employment firm Adecco Group AG, the world's largest provider of temporary workers.

More women in Vietnam, compared with Singapore and Malaysia, are also hoping to be promoted, the BCG report found based on surveying more than 2,000 employees. Malaysia has the largest proportion of female respondents who

### Climbing the Ladder

Vietnam leads in women seeking promotions

	Vietnam	Singapore	Malaysia
Yes, I want to advance within my current company	81%	74%	59%
Yes, but I plan to advance outside my current company	15	9	16
No, I want to stay in my current leadership position	4	14	20
No, but I am looking for a position in another company	—	3	5

intend to stay in their current roles.

Beliefs that hinder gender diversity include the misconceptions that promoting women comes at the expense of meritocracy, and that company growth and transformation are more urgent priorities, the report said.

According to another study by Deloitte in June this year, 17.6% of board members in a survey of 50 Vietnamese companies were women. That's more than double Asia's average of 7.8%, with developed nations such as Taiwan, Japan and South Korea ranking among the bottom in the region. Women comprised 13.7 and 10.7% of board members in Malaysia and Singapore respectively.

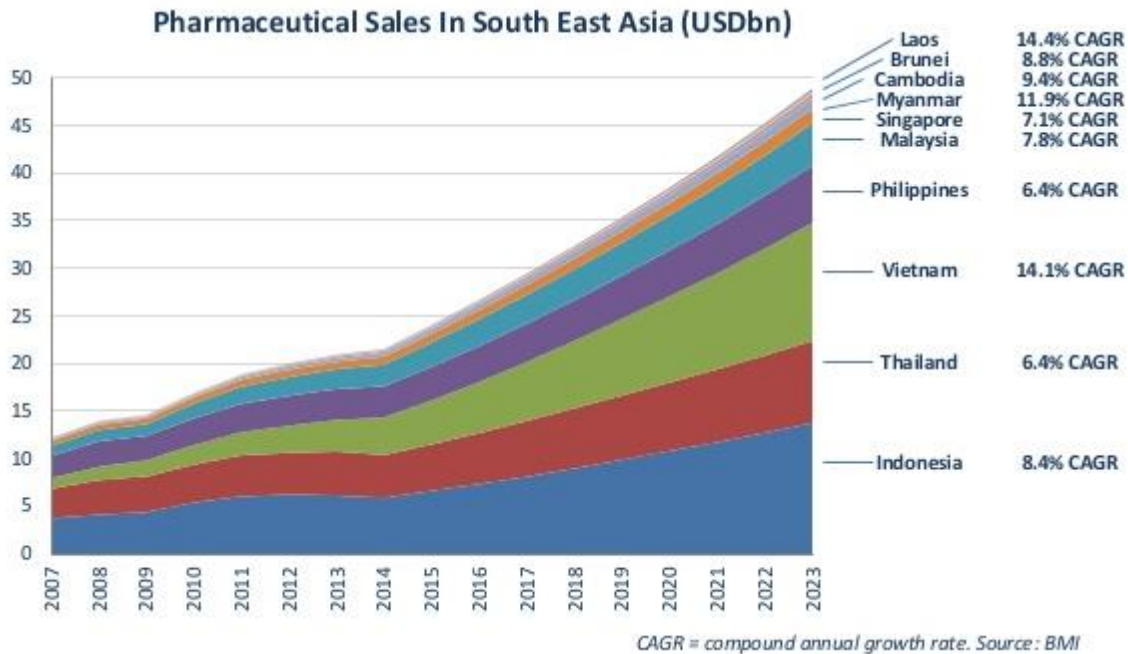
Emerging countries outperform developed countries in Asia in women's representation on company boards, said Adecco's Grundy. Vietnam's progress in gender diversity is partly due to measures by government and businesses to retain and grow female talent, he said.

"Having said that, it is important to remember that Southeast Asia still lags behind Europe and North America," said Grundy. "And globally we are still some way from achieving optimal gender diversity, which means there is continued effort required from all stakeholders in the region."

**MARKET & PRICES**

**Who will take control of billion-dollar pharmaceutical market?**

VIR - With hefty experience in distribution and retail, Mobile World, FPT Retail, Digiworld, and Nguyen Kim have been entering pharmaceutical retail, but who will seize control?



CAGR = compound annual growth rate. Source: BMI

**A land without a “king”**

In the past year, giants from the Vietnamese distribution and retail sector started looking for new places to develop and have all set eyes on the same market that is bursting with unexploited potential, pharmaceutical retail.

At first, Mobile World Group (MWG) announced intentions to set foot in the pharmaceutical retail sector by mergers and acquisitions (M&A). MWG expected to appear on the pharmaceutical retail scene in June 2018 by signing with such brands as Phuc An Khang and Phano Pharmacy.

FPT Retail has carried out a pilot investment into Long Chau Pharmacy and expects to add this sector's revenue to FPT Retail's general revenue from 2019.

Similarly, Nguyen Kim Group has just already raised its ownership to over 51.14% (from the current 24%) to dominate Lam Dong Pharmacy (Ladophar). Nguyen Kim has to pay around \$3 billion for this deal, then continues evolving Ladophar's business which is pharmaceutical agricultural production, business in drugs, medicine, health equipment, and pharmaceutical export-import activities.

Digiworld has entered into a co-operation with Vinamedic to set foot in the functional foods market by the distribution of Kingsmen products for over-40 males.

In the Vietnam Pharmaceuticals and Healthcare report of Business Monitor International, the revenue of the pharmaceutical sector hit \$4.7 billion, up 13% compared to the same period last year, and is expected to

continue two-digit growth in the next five years. Meanwhile, the revenue of pharmaceutical retail reached \$1.56 billion.

According to the latest analysis of FPT Securities, the average gross profit margin in the pharmaceutical sector went from 35 to 40% in 2006-2016, net profit margin was 10%, and ROE increased from 10 to 15%. This profitability is much lower than that of the leading corporations worldwide, but similar to large enterprises in the ASEAN.

The three major distribution channels are hospitals, pharmacies, and private clinics. Of these, retail pharmacies distribute 65-70% of all drugs. This is the reason behind the four electronic giants jumping on this sector.

Robert Tran, CEO of Robenny Corporation - one of the global leaders in business development strategy advisory in the US, Canada, and the Asia-Pacific, said that there are 34 leading pharmaceutical corporations in Vietnam. He also confirmed the potential of the pharmaceutical market.

This is a special sector, as drug sales depend on prescriptions or just a patients' declaration on their health status. "What will the retailers do to control output?" asked Robert Tran.

### **Who will take control?**

Despite being a potential market, the wholesale channel makes up only a small proportion. This is both an opportunity and challenge. The four retailers could use their experience on store chain management but have to face three risks posed by the dominance of the wholesale channel, managing the whole supply chain (from the import of drugs to delivery to consumers), and employee management. There are thousands of medical graduates, but they cannot meet the requirements of this sector, causing a shortage of qualified employees.

If these retailers follow the model of foreign pharmaceutical chains, the combination between grocery stores and pharmacies will open up new ways. Medicare in collaboration with Guardian implemented by this way but not successfully, due to habit of Vietnamese. They could spend hours in a super market but do not want to stay long in a pharmacy.

Retailers like MWG, FPT, Nguyen Kim, and Digiworld see favourable conditions provided by the government to encourage private sector investment. With these advantages, they could jump on the pharmaceutical sector, but Robert Tran doubted the capacity of dominating the market. He said this sector is a place for giants and long-standing prestige, simply understanding the concepts or models of store chain management will not suffice.

In order to take part in this sector, the four retailers have to do M&A. Nguyen Duc Tai, chairman of MWG, said that instead of researching this sector for two or three years, MWG chose to acquire a pharmaceutical brand, especially those owning 10 to 15 stores. MWG spent VND500 billion (\$22 million) acquiring 20 to 40% of the shares of an existing pharmaceutical retailer, then raise it to 60%.

This is a clear objective but there is little in the way of selection. Almost all pharmaceutical brands are too young. M&A with any pharmaceutical brand could help them to join the market, but if they want to become leaders, they will not only need to spend a lot of resources but keep their reputation.

At this time, pharmaceutical firms still aim to expand their market. Phano Pharmacy intends to expand to 300 pharmacies, including 10% of franchised stores by 2020. Pharmacity will expand to 200 and hit \$45 million in revenue by 2020 (its revenue in 2016 was \$8.5 million).

### Food market undergoing restructuring as more foreign companies arrive



The Vietnamese food market is thriving, with 10.9% CAGR (compound annual growth rate) predicted by BMI Research for the 2017-2019 period.

Many visitors to the 2017 Vietnam Food Industry international exhibition noticed that 'Cau Tre', a familiar Vietnamese food brand, had changed to 'CJ Cau Tre'.

'CJ' was added to 'Cau Tre' after the Korean CJ Group took over Cau Tre in May 2017. Six months was long enough for CJ to turn the Vietnamese brand famous for

tens of years into a Korean brand.

Sources said Cau Tre is not the only food company CJ is eyeing. The investor from South Korea is still considering buying a Vissan stake from Masan and eyeing other producers.

Before Cau Tre fell into CJ hands, the Vietnamese food market noticed a deal of Daesang Group, the owner of Miwon brand, taking over Duc Viet Food JSC, a well-known sausage brand, at US\$32 million.

Another Korean group, Lotte, is holding a 44% stake in Bibica, a sweets manufacturer.

Meanwhile, Mondelez International became the new owner of Kinh Do after it spent US\$370 million to acquire the sweets manufacturing division of the group.

Sources said Singaporean, Thai and Malaysians are hunting Vietnamese food companies.

Ly Kim Chi, chair of the Food & Foodstuff Association of HCM City, said a number of Vietnamese food companies had been swallowed by foreign conglomerates.

Even large enterprises have fallen into foreigners' hands because foreigners are willing to pay high prices to take them over.

Analysts say M&A activities are particularly hot in the food & beverage sector. BMI Research predicted a 10.9% CAGR for the food & beverage sector in 2017-2019.

Tran Anh Tuan, CEO of The Pathfinder, a consultancy firm, said companies can make a profit just after five years of investment if there is good cash flow.

He said Vietnamese food companies are eyed by not only financial investors and investment funds, but also by food conglomerates which are taking full advantage of the Vietnamese companies' large networks to distribute their products.

Commenting about the sale of Vietnamese food companies to foreigners, Anh said there was no need for despair. "Instead of feeling regret, you should think about what would happen if Cau Tre had not sold its stake to CJ, and if Cau Tre had continued to shrink or lose market share?" Anh said.

## HIGHLIGHTS

### Foreign capital flows into consumer loans

VNN - The size of the consumer market has increased rapidly, attracting more foreign capital.

After receiving a loan worth \$100 million from Credit Suisse AG, Fe Credit, a finance company of VP Bank, recently received another \$100 million loan from Deutsche Bank. 'Just within one year, Fe Credit borrowed \$200 million from foreign financial institutions.

Analysts commented that foreign capital is now heading for Vietnam's finance companies because the personal consumer lending market is heating up.

HD Saison earlier this year raised its charter capital from VND550 billion to VND800 billion.

A Japanese investor – Shinsei Group – acquired a 49% stake in the Military Bank's finance company and renamed it Mcredit. It is unclear about the value of the deal, but Mcredit has charter capital of VND1 trillion, listed among the biggest finance companies.

Meanwhile, Lotte Card, a subsidiary of South Korean Lotte Group, is reported by South Korean media as having taken over TechcomFinance, set up by Techcombank, at the price of VND1.7 trillion.

Prior to that, Techcombank took over the VND600 billion finance company from Chemicals Group.

According to StoxPlus, the Vietnamese consumer lending market is estimated at \$26.5 billion in 2017, an increase of 30% compared with the same period last year.

In 2016, consumption in the country accounted for 78% of GDP, according to Can Van Luc, a respected banker.

Fe Credit, now holding 50% of the consumer lending market share, wants more capital as consumption has increased.

One year ago, the board of management of VP Bank, planned to sell a 49% stake to raise funds. However, it changed the plan.

In 2014, VP Bank bought a finance company from Vinacomin which had charter capital of VND1 trillion. In August 2017, the charter capital was raised from VND2.79 trillion to VND4.474 trillion.

The increase in charter capital will help improve the company's CAGR which decreased from 11.08% in 2015 to 9.45% in mid-2017.

Pushing up lending will help bring big profits, but this will force Fe Credit to seek new capital sources.

Unlike banks, which can accept deposits from individual clients, finance companies can only mobilize capital from institutions.

According to Fe Credit, capital borrowed from the two foreign institutions is just a small part of the total capital it raises through different channels.

Regarding capital costs, Kalidas Ghose, deputy chair of Fe Credit, said the cost of the loans from the two foreign institutions is nearly the same as domestic loans.

Analysts commented that foreign capital is now heading for Vietnam's finance companies because the personal consumer lending market is heating up.

He said the capital mobilization costs are very 'competitive' because of mortgaged assets and good business performance.

### Non-cash payment programs encounter barriers

VNN - The smartphone-based payment service market in Vietnam has become busy in the last six months, but Vietnam is still far from its 'non-cash payment' target.

The country had great opportunities to develop mobile payment services as the Vietnamese retail market, with high growth rates, is among the top 3 in Asia. According to GSO (General Statistics Office), the retail revenue of goods in 2016 reached \$118 billion, up 10.2% over 2015.

Mobile Vietnam, a report released in April 2017 by Appota, the provider of smartphone-based platforms, said that 72% of Vietnamese had used smartphones by 2016 (the figure was 20% in 2013). By the end of June 2017, Vietnam had 48 million broadband mobile subscribers.

Bank cards and smartphones are increasingly popular in Vietnam. The State Bank of Vietnam (SBV) reported that more than 110 million bank cards had been issued in Vietnam by the end of the second quarter, and the figure is expected to rise to 150 million in 2018.

However, despite favorable conditions, payment service providers are still meeting difficulties, Samsung Global's deputy CEO admitted that problems occurred when it began launching Samsung Pay in Vietnam. Vietnamese laws only set regulations for businesses which act as payment intermediaries.

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Samsung Pay is not an intermediary, but is the provider of platform, apps and payment solutions. Therefore, it is not easy to apply current regulations to Samsung Pay's services.

At least 50% of the population is working age but only 40% access finance services. Most of them live in cities.

A survey by the World Bank showed that the number of non-cash transactions per head in Vietnam is 4.9%, much lower than Thailand's 59.7, Malaysia's 89 and China's 26.1%.

Also according to World Bank, 65% of adults send/receive money through unofficial systems, or pay for tuition and other services in cash.

An important barrier exists as 6.2 million adults cannot access finance services. 2.2 million say it is too expensive to use, 2.3 million find it difficult to open accounts and 1.1 million don't have confidence in the financial system.

According to Can Van Luc, chief economist of BIDV, the first thing Vietnam needs to do is heighten public awareness of new payment methods.



## CONTACT

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### **SEIKO IDEAS - 11<sup>th</sup> Anniversary**

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