# Japanese investors jostling continental counterparts

Despite the current global woes, investors around Asia are ramping up their merger and acquisition (M&A) activities in Vietnam. **Masataka Sam Yoshida**, head of the Cross-border Division and CEO of Vietnam RECOF Corporation, discussed the trend with *VIR*'s **Thanh Van** and how Japanese companies will step up their game in this country's M&A market.

***As the competition for Asian buyers to acquire Vietnamese companies becomes more intensive, do you expect Japanese investors to act quickly to compete with buyers from South Korea, Singapore, Thailand, and China?***

For sure, Japanese investors will act more quickly than usual to catch up and compensate the time they will have lost due to the COVID-19 crisis. However, needless to say, the crisis would have damaged a huge number of peacetime buyers all over the world and most of them will have to be occupied to make their own businesses to recover to a good shape.

Thus, as should be the case in all the countries other than Japan, the number of companies who will remain capable and eligible to make investments outside their own countries will be naturally less than usual.

On the other hand, it is true that several deals are completed in Vietnam and we should question the buyers keeping the power to absorb companies outside their own countries under such a complex time. These buyers will be the ones surely with low leverage and cash rich but also with strong leadership, such as family-owned companies or groups with clear strategies. Of the nations mentioned, there will be buyers who would be willing to take up the opportunity and the competition among these powerful buyers will be fierce, which will create more opportunities for Vietnamese companies with good performance and track record. For the Vietnamese companies who are willing to take the opportunity to negotiate with these buyers, it would be highly recommended that the information disclosure and the selling process proposed to the buyers should be professional and well-prepared, which will lead to not only to a successful completion of negotiation in terms of efficiency on timelines, but also to reaching as high a selling price as possible.

***Japan has earmarked an economic stimulus package of $2.23 billion to help its manufacturers shift production out of China due to the pandemic. Will this facilitate Japanese buyers to accelerate M&A activities in Vietnam?***

Now, we may probably see a new wave of China+1. This key strategy has always fascinated Japanese manufacturers to move out from China and to make investment somewhere else. In many cases, Vietnam has always attracted and captured these Japanese companies' attention for their investment into the country.

I believe that the same trend will be followed this time, especially to a near virus-proof neighbouring country like Vietnam. However, it is also true that the early opening of the country by removing restrictions for investors to enter the country without isolation after customs clearance is desired in order to promote and even accelerate the M&A process for Japanese investors, especially if it is their first entry into Vietnam.

***Vietnam has flattened the pandemic curve and is the first in the ASEAN to start easing some social distancing measures. How do you see this help the Vietnamese market attract potential investors?***

Vietnam's success to fight the pandemic is one that very few countries all over the world have not achieved yet. With this, Vietnam should be admired as a tutor for many countries including Japan, and this will no doubt be one of the most valuable factors to charm investors. In addition to this great achievement, I hope that Vietnam will again lead the world in terms of preventing the return of the virus as well as realising a rapid post-pandemic economic recovery. In order to accelerate the speed of such a recovery, utilising foreign direct investment will be one of the most effective measures, which means quick creation of a mechanism and infrastructure to attract Japanese and foreign investors would be required.■

# Local businesses in foreign bid risk

**By Van Thu**

While the ongoing pandemic is taking a severe human and economic toll worldwide, deal-making activity in Vietnam is likely to maintain momentum as corporate leaders are being asked to make strategic decisions for hunting capital. However, experts have raised concerns that the virus has left local companies vulnerable to bids from overseas.

Park Jun-Yong, a South Korean lawyer from Linden Investment Co., Ltd. predicted, "We will see more mergers and acquisitions (M&A) than before because of market restructuring, not just because prices will go down."

The coronavirus outbreak has disrupted supply chains, causing the closure of several manufacturing facilities worldwide and the restructuring of many industries. Clearly, decision-makers have no test playbook to navigate the unprecedented global health and financial crisis, pushing them into action quickly to survive the crisis and accelerate the eventual recovery. For companies with strong balance sheets, M&A will play a major role during that time.

According to data from the Foreign Investment Agency under the Ministry of Planning and Investment, in the first four months of this year, 32.9 per cent of overseas investment, reaching $2.48 billion, was in capital contributions and shares purchased by foreign investors. This included around 100 cases of capital contribution and share purchase by the Chinese. Meanwhile, Thai and Japanese backers also made an impact with a number of deals.

Truong Thanh Duc, a lawyer from Basico Law Firm, said that the data only reflects the tip of the iceberg, as the number of actual deals could be higher, and there are more to come. He also predicted that some local companies may reduce in value significantly during the pandemic, allowing large-cap buyers to quickly buy in. He went on to say that for 2020, in terms of M&A attraction, real estate will continue to be a big magnet for investors. In addition, other industries and fields such as industrial production, services, construction, and energy are also attractive for M&A deals thanks to the relocation of production from abroad into Vietnam and the high demand.

The increasing domestic demand due to rapid population growth and urbanisation has had a big impact on M&A in the services and consumer goods sectors. The private equity industry, which is sitting on billions of US dollars, may be one beneficiary of the drastic de-rating across markets, but they will also have their hands full managing existing portfolios.

South Korea, Singapore, Thailand, China, and Japan should be willing to take up the opportunity, and competition among these powerful buyers will be fierce, thereby creating more opportunities for Vietnamese companies with a proven track record.

Michael Han, head of South Korean-backed SK Group's representative office in Vietnam spoke to *VIR*. "The attractiveness of Vietnam and its tremendous growth potential is not new," he said. "Singapore, Thailand, and China have been the traditional powerhouse investors in Vietnam, with South Korea and Japan being the relative newcomers. We have seen increasing competition in certain sectors and I would not be surprised if more deals are sold via an auction process."

Warrick Cleine, chairman and CEO of KPMG in Vietnam and Cambodia said that the types of investors looking at Vietnam are private equity funds and multinational corporations, especially from Japan and South Korea. "They are more familiar with short-term economic shocks, and invest for the longer term. Vietnamese companies seeking foreign partners need to be realistic about valuation and flexible about the timing and process. It is a much more difficult market than it was three months ago," Cleine said.

While there will be winners and losers, observers are concerned that panic will lead to a raft of "opportunistic" M&A activity in the short term as smaller businesses struggle to survive. There is a valid concern that others may take advantage of market volatility to profit.

Global consulting firm FTI suggested in its COVID-19 M&A report that companies should also prepare for a potential unwanted approach by understanding the factors that make them vulnerable to such overtures. "Beyond the financial incentive offered by a premium, shareholders may view the lack of a viable strategy or a reliable management team as good reasons to sell the company," it noted.

Amid the new situation, the Vietnam Chamber of Commerce and Industry submitted various proposals to the prime minister late last week, in which it requested the government should delay M&A deals during the crisis in order to avoid leaving local businesses vulnerable to hostile takeover bids from foreign investors. The proposal is said to be necessary and urgent at this time while many other countries are seeking tighter scrutiny of acquisitions.

Duc from Basico Law Firm warned that Vietnam could face punitive tariffs, origin fraud, and illegal transshipment if they fail to regulate businesses' activities after M&A deals are completed.

Some of Europe's biggest economies have announced intentions to protect domestic companies by increasing scrutiny of foreign investments. These tactics typically involve tighter regulations at the deal screening level, including closer attention to industry-specific transactions, and relaxed thresholds for blocking cross-border investments entirely.

Some measures have been implemented in direct response to the COVID-19 pandemic, but others are the result of long-planned reforms.■

**COVID–19: Global application of foreign investment control rules**

| Country | Foreign investment changes |
|---|---|
| Spain | Any investment of 10 per cent or more in a Spanish company engaged in technology, energy, transportation, aerospace and defense, media, or healthcare now requires prior government approval. |
| Italy | Expanded "golden power" rules in order to combat hostile foreign takeovers. |
| Germany | Authorities may now prevent a deal that will lead to a "foreseeable impairment" of German public security. The standard used to be an "actual threat," but now serves to filter out even more potential cases of harmful foreign control. |
| Australia | There are no threshold amounts which apply in determining whether particular foreign investments are subject to the framework, when previously these thresholds could be as high as AU$1 trillion ($652.5 billion). |
| India | India requires that all acquisitions by investors from any bordering countries obtain prior government approval. |

**Significant deals in the first five month of 2020**

| Number | Investors | Targets | Value |
|---|---|---|---|
| 1 | Stark Corporation (Thailand) | Thinh Phat Cables (Thipha) and Dong Viet Non-Ferrous & Plastic (Dovina) | $240 million |
| 2 | Super Energy Corporation | Four solar power assets | $477 million |
| 3 | SaraminHR | TopDev | Undisclosed |
| 4 | World Mode Holdings | People Link | Undisclosed |
| 5 | SK Lubricant | Mekong Petrochemical | $42.1 million |