Foreign investment certain to come

With the largely successful containment of the pandemic, new foreign capital flows are expected in Vietnam's banking and financial market this year.

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Among the most vulnerable sectors in these days of global economic slowdown and pandemic crisis, foreign investment and overseas remittances into Vietnam's financial, banking, and insurance sector were critically weakened last year, with FDI plunging from $174.53 million in the first quarter of 2020 to $18.62 million in the first quarter of this year. As it's not alone in experiencing turmoil, many analysts believe that Vietnam's banking and finance sector remains worthy of investment, along with merger and acquisition (M&A) activities, on the back of expectations that the economy and business community will recover strongly now that Covid-19 vaccinations have become available.

M&A slowdown

Vietnam's equity market may see major M&A deals this year as many local banks are trying to attract foreign capital given the country's participation in international trade deals. Vietnamese banks, especially small-caps, are targeting more foreign capital to improve their performance, according to analysts. But the circumstances make it difficult for foreign investors to hunt down local banking and financial shares.

As a result, M&As in Vietnam experienced a particularly sharp decline last year, as the effects of the pandemic took hold, according to Mr. Masataka Yoshida, Senior Managing Director and CEO Vietnam at the Recof Corporation, a Japan-based global M&A consulting firm. "Uncertainty over the business environment and ongoing travel restrictions have been key factors behind the M&A market contracting over the last year," he said. "In the banking and finance sector, deal-making by some local banks in the sale of their consumer finance arms were disrupted by the pandemic. We have seen the purchase of a 50 per cent stake in FCCOM, the consumer finance arm of MSB, by Hyundai Card, which was initiated in 2019, called off just recently."

There are some encouraging signs, however, led by foreign investors, especially those from Japan. The Mitsubishi UFJ Lease and Finance Co. announced the acquisition of a 49 per cent stake in the leasing arm of the Vietnam Bank for Industry and Trade (VietinBank), while Aozora Bank from Japan bought a 15 per cent stake in the Orient Commercial Joint Stock Bank (OCB). "As many Vietnamese banks have been looking to raise their capital to meet requirements on capital adequacy ratio in the Basel II standards, a number of terrific deals have been made," Mr. Yoshida went on. "For example, the Military Commercial Joint Stock Bank (MBBank) successfully raised funds from eight foreign investors in early 2020, while the Ho Chi Minh City Development Joint Stock Bank (HDBank) issued convertible bonds to its strategic partner, the German KFW Bank's DEG."

"We especially see growing momentum when it comes to the expansion of digital financial services and fintech companies, as the Vietnamese Government encourages cashless transactions. Digital payment start-up VNPAY and its rival MoMo are understood to be separately raising additional million-dollar funding rounds from numerous global investors. Another e-wallet company, GPay, received Series A funding from South Korea's KB Financial Group early this year. As the pandemic situation eases and if borders re-open soon, we expect to see deal volumes pick up through the remainder of the year."

Indeed, investment capital from overseas financial organizations pouring into Vietnam's financial, banking and insurance industry have been mostly seen via M&A activities, Dr. Oliver Massmann, General Director of Duane Morris Vietnam, said. "The main driver of Vietnam's M&A market is the equitization of State-owned enterprises (SOEs)," he explained. "According to Resolution No. 01/NQ-CP issued by the government in 2021, one of the key tasks this year is to continue strengthening the restructuring, equitization, and divestment of SOEs. The government also aims to publicize equitized enterprises that are eligible but not listed nor registered for trading on the stock market. Another driver should be trade liberalization, as a result of Vietnam's many free trade agreements (FTAs)."

Among M&A deals, the FWD Group in April last year announced its acquisition of the Vietcombank Cardif Life Insurance Company, a joint venture between the Joint Stock Commercial Bank for Foreign Trade of Vietnam (Vietcombank) and BNP Paribas Cardif. South Korea's KEB Hana Bank, meanwhile, became a major shareholder of the Commercial Bank for Investment and Development of Vietnam (BIDV) after acquiring 603.3 million shares, equivalent to 15 per cent of capital, in November 2019.

Major contributions

It is clear to see that foreign capital flows into Vietnamese banks over the years have helped stimulate the management of bad debts, raise the capital adequacy ratio, and sped up the adoption of the Basel standards.

Mr. Yoshida pointed out that foreign financial organizations, especially from developed countries, often have superior credit technologies, sophisticated products, and better management and governance structures, so have acted to enhance local banks' technology capacity, workplace productivity, and corporate governance, and, to a broader extent, improved the competitiveness of Vietnam's economy, where changes have been accepted and adopted by local banks. "Foreign credit institutions, with their global-scale networks and relations, have also contributed to attracting foreign investment capital into Vietnam," he told VET.

Most recently, the EU-Vietnam FTA contains a memorandum of understanding concerning bank equity, in which Vietnam pledges to favorably consider allowing EU credit institutions to raise their ownership to 49 per cent of charter capital in two Vietnamese joint stock commercial banks. "This commitment, if enacted, will be valid for five years only," Dr. Massmann noted. "After that, Vietnam is no longer bound by the commitment, and it is not applicable to four banks where the State holds a majority share: Vietcombank, BIDV, Vietinbank, and Agribank."

Other encouraging signs for foreign investment, he added, include reformed policies to allow wider access to foreign investors, and the ASEAN Economic Community single market and production base. In addition, Vietnam's ultra-wealthy population is growing faster than anywhere else and is on track to continue leading growth in the next decade. Finally, he anticipates that SOE equitization will also speed up.

Vietnam has been emerging as a destination for FDI given its market size, growth story, stable political environment, willing and able workforce, and access to important export markets via its comprehensive list of FTAs, according to Mr. Tim Evans, CEO of HSBC Vietnam. "It is clear that Vietnam is a bright spot for investors, especially given the current gloomy picture for global investment," he said. "For the financial services sector, we believe the FTAs will contribute to the further development of the industry and also help push the digital transformation agenda. The opening of new markets and easing of cross-border transactions are expected to increase capital funds and promote FDI into Vietnam. The FTAs should create a more favorable environment for investors and therefore we can expect Vietnam's financial services sector to embark on further reforms to capitalize on this opportunity and facilitate ongoing growth and development."

Foreign banks in Vietnam have also contributed significantly to changing the local banking and financial market's landscape in recent years and attracted more overseas capital into the country. With a long history in Vietnam, Mr. Evans said, HSBC has recently become an official partner of State agencies to provide technical and knowledge support in attracting additional FDI inflows into Vietnam. Its Securities Services experts are also working alongside authorities, to help contribute to building Vietnam's capital and equity markets.

Hurdles to surmount

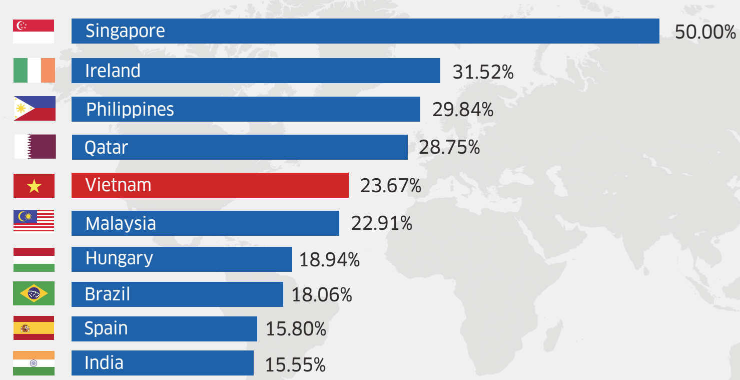
Despite seeing positive prospects for 2021 as the pandemic lingers, foreign investors in Vietnam still perceive certain general challenges, including the divergent interpretation and implementation of international treaties by local licensing authorities, such as Vietnam's WTO commitments, or different licensing procedures applied to different types of transactions, for example for foreign-invested enterprises (FIEs) and domestic companies, and public companies and private companies, and for buying State-owned shares or private shares.

Dr. Massman advised foreign investors to keep working closely with and establish a good working relationship with relevant government authorities, to be as informed as possible of developments with their projects. Foreign investors must also have local legal counsel who can provide them with the latest updates on changes in laws and policies as well as make sure that project documents are in line with available regulations to avoid cost and time associated with paperwork and the risk of future litigation.

Otherwise, the barriers facing foreign financial organizations in Vietnam do not differ from those in other sectors, except for the foreign ownership restrictions on shares. Mr. Yoshida said the most common barriers are internal control and management mechanisms (including compliance matters), which sometimes result in non-Vietnamese companies losing confidence about fully understanding the risks of their investment, or in other words, making it difficult for them to assess the creditability of the target and the benefits of their investment.

"As for the barriers during Covid-19, the first, second and last one are restrictions on entering the country," he said. "For not only M&As but also for businesses or partnership building, online meetings and online site visits are not enough to make investors sufficiently comfortable and satisfied to make a final decision to inject capital. The longer these restrictions continue, the fewer investments there will be, at least from Japan."

TOP 10 MARKETS BY SCORE GROWTH IN M&A ACTIVITIES



Source: *Euromonitor International, M&A Investment Index*