Title: PE investors eager to put capital to work as Vietnam opens for business again
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PE investors eager to put capital to work as Vietnam opens for business again

Vietnam, which has successfully opened up domestic business activity after the three-month COVID-19-led lockdown restrictions, is likely to see a similar bounceback in private equity activity largely driven by the south-east Asian economy's strong macro fundamentals.

Fund managers reckon that investors continue to look at Vietnam as a "strategic market" rather than an opportunistic one. And, international investors' interest in the country remains high, according to transaction advisory firms.

While the COVID-19 pandemic has thrown the spotlight on new classes such as special situations and distressed assets globally, in Vietnam, general partners are said to have kept themselves busy with their regular pipeline of deals.

"We've made a choice to be very focused and just continue to do what we do well, rather than trying to be opportunistic," said Mekong Capital partner Chris Freund.

Also, the PE activity in the country is expected to be largely led by local players as restrictions on travel would make it harder for global players to conduct due diligence and close deals.

"There are fewer investors in Vietnam now with capital to deploy, so it has opened the door to more investment opportunities in our target sectors," Freund told DealStreetAsia in an email note.

As a result, he added, Mekong Capital has seen more companies in the deal pipeline than the pre-COVID-19 period.

Freund sees only funds with dry powder and people on the ground in Vietnam are really working on deals. In addition to Mekong Capital and Excelsior, which has raised a first close of $62 million for its debut country fund, VinaCapital has been reviewing a $626-million pipeline since late 2019.

“Now is the time for us to accelerate our investment programme,” said Hoang Xuan Chinh, managing director and head of Vietnam at Excelsior Capital Asia.

As the latest general partner to have a debut fund for the Vietnam market, Chinh revealed he has been able to work with a lot of entrepreneurs to keep Excelsior’s pipeline active. “Right after the countrywide lockdown was removed but offices were not opened yet, we were able to conduct meeting with entrepreneurs at their homes.”

Even the three-month lockdown was not too long, he added, Vietnamese companies need more growth capital to get on their feet again. “This is actually an opportunity for a lot of investors in general. So we hope the rest of the world will get back to normal and borders to be reopened soon so that investors come back and play in re-energising the economy.”

Mekong Capital is raising its fifth fund at a $200 million target and a $250 million hard cap and bets on consumer-oriented businesses such as retail, restaurants, education and healthcare.

Valuations hold ground Vietnam’s success in containing the spread of the coronavirus within less than three months has had a minimal impact on businesses, said Chinh.

The 2020 health crisis has had a certain impact on markets and valuations but Vietnam has witnessed a rapid retracement to pre-COVID-19 levels, added Andy Ho, chief investment officer at VinaCapital. “We see good businesses still remain fairly valued,” he said.

While acknowledging the situation where weak businesses are showing signs of financial distress, Ho said his firm chose to focus on businesses that can demonstrate secular growth over the medium to long term, with healthy balance sheets and cash levels.

“We comfortably hold about 5 per cent cash in the fund to take advantage of investment opportunities as they arise, particularly in this environment when we may spot opportunities where price and value are dislocated, but there is no rush for us to deploy money until we conduct our extensive due diligence and analysis,” Ho elaborated.

“The VN-Index is currently trading at close to 14x forward price-to-earnings ratio, in-line with historical averages. On the private equity side, we have not seen material downgrades in valuation levels for good quality businesses,” Ho added.

While it might take some more time to evaluate the impact of COVID-19 on the valuations of private assets, public indices for various sectors across Asia were captured to decline from 7-20 per cent after the virus hit the markets, according to an April report by Deloitte. In Malaysia, a more comparable market to Vietnam, market capitalisation in business sectors dropped by 5-30 per cent.

During the COVID-19 lockdown period in the country, some investors including Mekong Capital and PENM Partners saw revenues of a number of local companies drop by 30-50 per cent.

Despite the precipitous virus outbreak earlier in the year, the Vietnamese government has targeted to achieve a 5 per cent GDP growth in 2020 against 7 per cent last year.

“We believe this is a great opportunity for our Vietnam Fund to capitalise on the country’s long-term potential,” commented Chinh.

Private equity investors generally had the highest concern about increased competition in Vietnam among Southeast Asian markets, as the country was seen as a destination with the highest presence of opportunities, according to Bain & Company’s latest webinar on the region’s PE industry.

In terms of industry focus, as EY’s transaction partner Du Tran opined, there has not been any significant shift in investors’ interest. “Healthcare, pharmaceutical, education, renewable energy and consumer products continue to attract strong interests from overseas buyers,” he said.

Per DealStreetAsia data, in 2020 so far, PE investors have scored five investments in Vietnam, including a renewable joint venture and four transactions worth a combined $98 million.

Meanwhile, in the same period last year, the country recorded nine PE deals, five of which attracted a total amount of over $210 million.

The quarter before the COVID-19 outbreak in late January also saw four other investments with participation from marquee investors such as TA Associates, GIC and Temasek.

“We have noticed that the appetite for M&A activities has not dampened despite the COVID-19 situation. Although international flights are expected to resume within the next month or so, the quarantine procedures are likely to still dampen an influx of foreign investors,” said PwC Vietnam’s partner Ong Tiong Hooi, adding that particularly first-time investors would exercise more caution while taking the first steps into the market.

Digital transition the way forward for consumer sectors The adoption of digital services is a clear transition post-COVID-19 that makes Vietnam a more attractive place either to invest in or integrate with brick-and-mortar sectors. So, acceleration of online integration particularly in education and healthcare is being seen as the next big investment trend in the country

“I do see new digital technologies playing a more prominent role in the new normal as consumer acceptance grows and businesses adapt and prepare for potential future shocks,” commented Hooi.

Vietnam’s digital economy has captured the interest of PE investors across sectors such as e-commerce, payments and logistics. Investors reckon that the disruption and rearrangement of the global supply chain from China to Vietnam would create new demand and hence new potential investment opportunities.

“This new source of demands will continue to fuel Vietnam’s strong growth in the near future,” said Chinh. However, Ho reasons, in order to tap the potential successfully, investors need to be strategic and have a “strong track record of PE deals in this market.”

By Nguyen Thi Bich Ngoc