Press Release

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PwC: US$24 billion cash trapped in net working capital in FY18, opportunity to release up to US$11 billion

- *The cash conversion cycle (C2C) deteriorated by two days for top listed companies in Vietnam in FY18 from FY17.*
- *Only seven out of 15 sectors studied recorded an improvement in working capital performance.*
- *A total of US$24.1 billion cash was trapped in net working capital, of which US$11.3 could be released through working capital improvement initiatives.*
- *Improvement in Inventory and Receivables accounts for roughly 70% of all such opportunities.*

As a booming economy, the business environment in Vietnam is becoming increasingly competitive, especially in this time of emerging opportunities and potential trade shift from China owing to the US-China Trade War. As a result, in addition to growing the top line of its business, working capital management is essential for every company as it enables a faster cash conversion and reduced dependency on external financing sources.

Our analysis shows that opportunities for cash release from working capital in FY18 would be more than US$11 billion. This is one of the latest findings that is highlighted in PwC Vietnam's second edition of the annual working capital study – "*Cash for growth or growth for cash?*". The study analyses the working capital performance of the 500 largest listed companies by revenue across 15 sectors over the past four years. The companies analysed have been listed on both the Ho Chi Minh City Stock Exchange (HOSE) and the Hanoi Stock Exchange (HNX) for at least the past four years.

On the current status of working capital performance in Vietnam, Mohammad Mudasser, Practice Lead, Working Capital Management of PwC Vietnam said: "We continue to see cash flows being sacrificed to attain top-line targets in Vietnam which is not sustainable for businesses in the long run. Managing operating working capital is a cross-functional responsibility, hence the role of CFOs must graduate from a pure accounting and controlling to a more active business partner in achieving the company's strategic objectives".

An effective working capital management would additionally support companies' liquidity needs which is considered the lifeblood of any business. In recent years, while corporate debts have been constantly on the rise, the amount of trapped cash has also adopted on an upward trend. It is important for businesses to remain cognisant of internal cash release opportunities as it is the cheapest source of liquidity and, in many cases, may be the only source of cash in a harsh credit climate.

Vietnamese businesses: Deteriorating working capital performance in FY17-18

According to PwC Vietnam's assessment, the working capital performance of Vietnamese businesses deteriorated last year while continuing to trail behind Asian and global peers.

ROCE down, margins flat

We witnessed rapid top-line growth of Vietnamese businesses in FY17-18, with revenue growth of over 15% for the companies analysed. However, margins contracted owing to higher cost of sales and other expenses. As a result, the Return on Capital Employed (ROCE) of the companies continued its downward trend, showing a 6.7 percentage point (p.p.) decrease in FY18.

Cash release opportunities of up to US$11.3 billion in FY18

Companies in Vietnam left US$24.1 billion on the table as cash trapped in their net working capital in FY18 which accounted for roughly 50% of total net working capital (NWC) and 7% of total annual sales of the companies analysed, respectively.

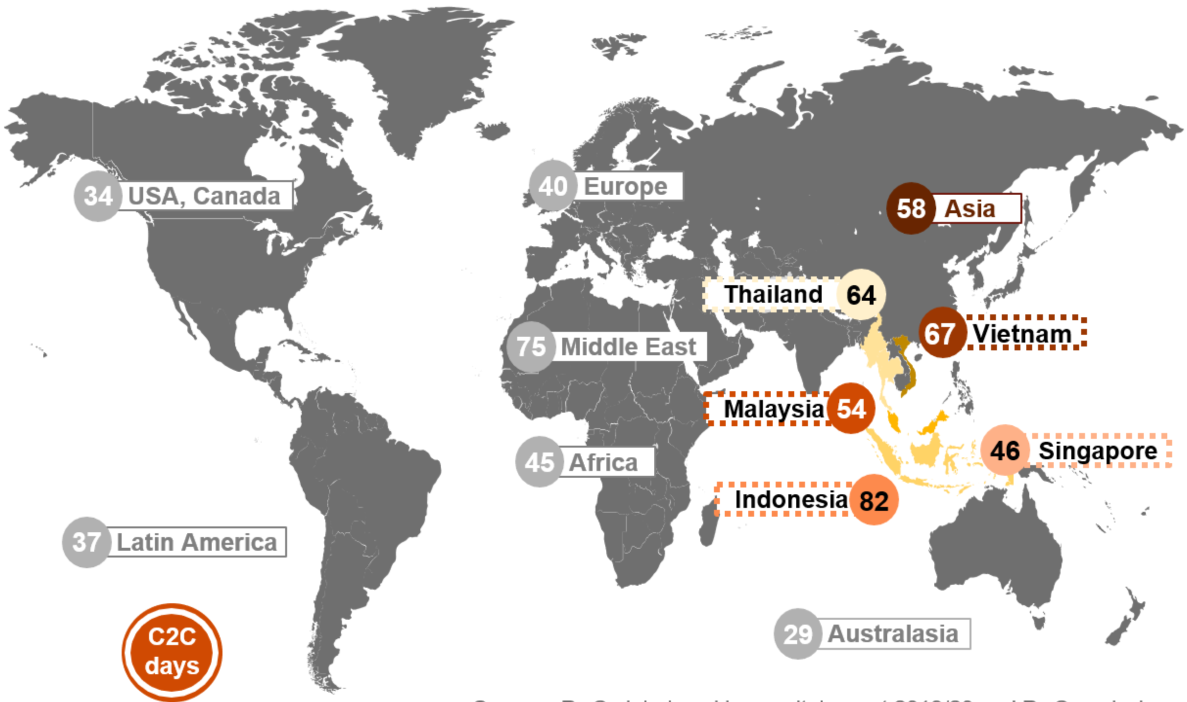
Remarkably, one third of this amount can be realised for Engineering & Constructions and Consumer Products industries alone. In terms of working capital elements, Inventory days (DIO) was the most important element for the companies to focus on for cash release, followed by Receivable days (DSO).

Deterioration in the C2C

Working capital performance deteriorated in FY17-18 by two days reaching 67 days, mainly due to the shortening payable cycles . The findings also reveal that working capital needs were mostly financed through short term borrowings rather than companies looking at opportunities for internal cash release. There was also limited use of payables or receivables financing which can be easier to source financing avenues for compared to traditional bank borrowings

The fast-growing companies (companies with a Sales growth exceeding the median in the past four years) had significantly higher short-term debt growth (CAGR of 13.5%), indicating risks to the sustainable growth of these companies.

Significant improvement opportunities for Vietnam businesses in shortening working capital cycle



Source : PwC global working capital report 2019/20 and PwC analysis

Vietnam's working capital performance continues to lag behind that of most Asian countries, as well as developed markets such as Europe, the USA and Australasia. Vietnam's C2C was nine days higher than the Asian median and 13 days higher than that of Malaysia. Malaysia, the second-best managed working capital economy in Asia, performed significantly better in inventory (ten days lowerDIO) and receivables management (eight days lower DSO) when compared to Vietnam.

A widening gap between top and bottom working capital performers

We observed stark differences between top and bottom working capital performers' performance over the last year. Whilst top performers managed to improve their performance, the bottom performers deteriorated further to result in an overall deterioration of the C2C of all the companies analysed. The upper quartile of companies also achieved better financial performance in profitability, solvency, and liquidity ratios as well as having the ability to self-finance instead of relying on external financing sources as the worst performers do.

Unlocking business potential with working capital management

Effective working capital management has an important role to play in gaining control over and releasing business's trapped capital, a valuable resource that is often overlooked. This especially applies for fast growing companies in Vietnam whose dependency on short-term debts is increasing year-on-year. Along a similar vein, regarding growing concerns for sustainability, the study acknowledges that top working capital performers are best at reducing their C2C cycles, leaving companies in the bottom group far behind.

Beside a significant amount of trapped cash, as well as a stretching C2C cycle, the stark gap between revenue growth (15%) and increase in operating profits (3%) further signifies the growing burden of expenses and also implies significant opportunities for working capital improvement in Vietnam. Different metrics of working capital performance in FY18 universally showcase certain limitations of working capital management in Vietnam despite the country's economic growth. To stay ahead, businesses in Vietnam need to actively manage and maintain their working capital elements to optimise business efficiency and ultimately increase cost savings.

Whilst bearing that in mind, to improve business's working capital management, there are certain things for companies to start with, including: a top-down approach and sufficient attention from operational decision makers to the importance of sustained working capital improvement; partnering with operational decision makers to improve working capital management; utilising the expertise of the finance and operations functions, as well as information and data/systems, to support the improvement of working capital processes by decision makers; and providing business units with robust, credible information systems/tools to effectively negotiate and collaborate with third parties to decrease working capital within the organisation, as well as across the supply chain.

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Notes to editors:

About PwC's Working Capital Management services
PwC has a dedicated working capital team that can help our clients to identify the main drivers affecting working capital. We develop and implement tailored strategies with our clients to release cash tied up in working capital and generate sustainable benefits. Learn more about us at https://www.pwc.com/vn/en/services/deals/working-capital-management.html

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with over 276,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

About PwC Vietnam

PwC Vietnam established offices in Hanoi and HCMC in 1994. Our team of more than 1000 local and expatriate staff has a thorough understanding of the business environment in Vietnam and a wide knowledge of policies and procedures covering investment, tax, and legal, accounting, and consulting matters. In addition, we have established PwC Legal Vietnam, PwC Consulting Vietnam, and PwC Vietnam Cybersecurity to diversify the services that PwC offers.

We go the extra mile to help our clients achieve their objectives. With the strong industry knowledge that our clients require at a local level, we offer integrated services, bringing a breadth of skills and depth of resources to our clients wherever they do business, throughout Asia and across the world. Visit our website for further information: www.pwc.com/vn.