Background Information for IPBA Regional Seminar
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Divestment in Breweries companies – Pricing and Bidding
Vietnam is the largest beer consumption market in South East Asia, the third largest in Asia following Japan and China or Korea. Four main companies currently dominated Vietnam beer market are Habeco (Hanoi Brewery), Hue Brewery (owned by Carlsberg 100%), Sabeco (Saigon Brewery) and Heineken NV. Among those, the first three names reflect their geographical targets and dominance. Instead of having a particular geographic preference, Heineken focuses on the medium and high end segment.
Apart from these four, Vietnam’s domestic beer market is also witnessing the powerful emergence of Sapporo (Japan), AB-InBev (USA) and the latest is Shingha (Thailand) with 25% stake holding in Masan Consumer Holdings.

Following the divestment Decree No 91/2015, both Habeco and Sabeco are now on the track to sell their major shares to private investors. This article analyses from the viewpoint of the government how to divest and maintain the three government's principles under Art 38 of Decree 91: market values, transparent, and under applicable laws.

Market values, transparent and under applicable laws
Both Sabeco and Habeco have been listed, and as such they have market value. Art 38.4.a Decree 91 requires that the transaction price shall be determined under the laws on securities i.e. either through negotiation or matching orders. In case of price negotiation, the transaction price must be within the margin of the stock price at the transaction date.

According to cafef.vn dated 15 October 2017, as the price 273,000 VND per share, Sabeco was valued at 7.7 billion USD, or P/E 35. Habeco share is also listed at approximately 130,000 VND. Foreign investors who might be interested in buying shares in those companies were concerned that listed price does not represent the market value, because the number of shares traded in the stock markets of both companies are small.

There has been an attempt to revise Decree 91 to remove the margin restriction. Under the draft Decree 91 in May 2017 (disclosed in Thuvienphapluat), the price agreed through negotiation could be determined by a certified appraisers "based on market price." Ironically, The words "market price" here referred to "investment value of the state, including land use right." (Amendment to Art 38.1.c). Hence the price valuation is still based on asset value rather than discounted cash flow or book building method.

If this version of amendment is adopted, the stock is under risk of under valuation, as other values such as brands or distribution networks have not been counted. If the price is referred to as the stock price in the market plus minus a margin 7%, then there was a concern of over-valuation.

However it should be noted that stock market price should still be referred to. According to Reuters in July 2008, in the deal of InBev to Anheuser, InBev offered $65 a share cash bid, valuing Anheuser at $46.3 billion. The bid price represents a 35 percent premium over Anheuser's 30-day average share price prior to recent market speculation. At the end, the price agreed was $70 billion, higher than the bid price.

Hence the applicable laws might need to be revised in order to accommodate the market value conditions and the transparency at the same time.

Transparency consideration
The first condition is transparency. My argument is that this is the most important principle to guarantee a fair price. The more market is opened, the more bidders are invited, and the more time they are allowed to do due diligence, the more likely they would be willing to bid for a fair price. This is because to approve a higher price, the Board of Directors of the bidder must see and approve in-depth due diligence reports from
the lawyers, the accountants, the auditors, the appraisers as well as the advice from the investment banker that represent them in the bid.

Normally, the process of in depth due diligence for a major company such as Sabeco or Habeco would take at least a month, giving the timeline to divest both Sabeco and Habeco within this year becomes difficult to achieve. Hence for maintaining transparency principle, sufficient time for due diligence should be given. An example for lack of time of due diligence is the divestment of Vinamilk in 2016 that leads to the situation that only F&N and another related company attend the bid. F&N is already an incumbent investor and hence has more insight information than other would-be investors.

It is hopeful that in the agenda for divestment, a sufficient time of due diligence, or at least a vendor due diligence could be prepared so that the potential buyers would have more chance to assess the company.

Market value consideration
Once the divestment process is transparent, it is easier to arrive at the market value. By inviting as many as possible competitors to join a competitive bidding for the price, the price is likely to be higher than through direct negotiation. The higher value could be achieved if the sale shares is a majority one, or could put the buyer in the position of one of the decision maker in the target company.

Also, as lesson learned from the InBev transaction, the price agreed should not be too far from the stock market price. It could be marked at a margin from - not a price of the day of transaction, but an average price in a referral 30 day period before speculation started.

The highest value bidder might be one of the breweries or those who could synergise their strength with the strengths of the target companies. Only then the bidders could likely recap investment in a period of 10 to 15 years. The bidders shall calculate how many years it takes before they can recap their investment. If they can make use of the target's distribution network with their brands (together with the target's brands) then they will consider raising the price.

Apart from the main activities of the targets, the land of the targets are also a major value for them. Any price consideration should be taken into account the value of the land or its relocation that may incur further transactions values to real estate companies.

Non-price consideration
Apart from the pricing, other considerations should be taken into accounts such as keeping the national brands of Sabeco and Habeco as well as to protect the interests of the employees. Those consideration should be taken early on as the condition of the transaction, or it should be a plus point among the bidders who are ready to commit to keep the brands. The condition of keeping should be detailed, how many liters of local branded beer to be consumed per year, rather then just a vague principle of strategic partner.

Another consideration is public offering if the bidders will buy more than 25% total shares of the target (including their current shares). This rule may be exempted by the general shareholders meeting of the target, but if not this would be another opportunity to sell of the smaller shareholders.

Final recommendation
Divestment of state assets, especially premium targets are important tasks and source of revenue to the state. For foreign investors, those are a rare opportunities to enter into one of the most dynamic markets in Asia, ahead of other competitors. This is worth to pay a premium provided that they are given time to review the companies, but the time should not be too long, as the stock market may reach for a new height that make the price offered becomes comparatively small again.

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