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Vietnam's 2022 M&A highlights

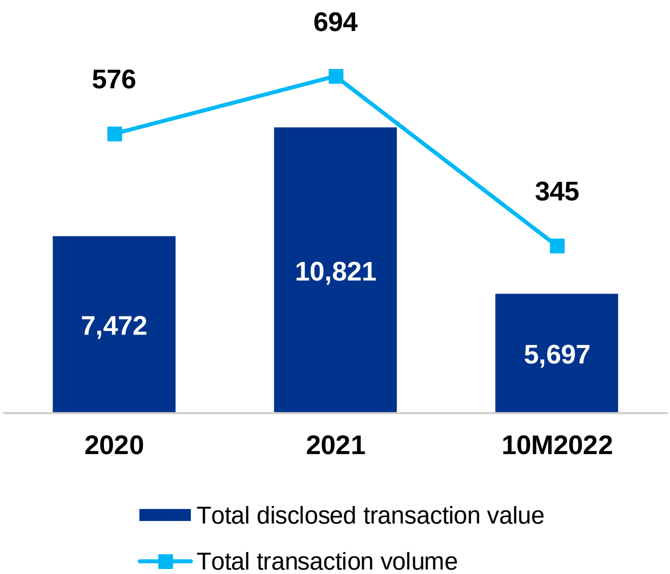
Regression in the first 10 months of 2022 from its record 2021 level

In 2021, Vietnam's M&A landscape is more robust than ever, owning to the government's efforts to contain the spread of the virus, coupled with their continued economic growth.

2022 has seen dealmakers inclining to spend more cautiously, yet, in light of worldwide geopolitical concerns and potential inflation influencing cross-border deals. The M&A activity has encountered a downturn in 2022 to merely reset to pre-pandemic levels after a surge in 2021. Investors tend to carefully seek potential deals and assets that bring more benefits, besides profitability. The first 10 months of 2022 (10M2022) logged in USD5.7 billion in total, representing a decline of 35.3% yoy, while the number of deals significantly declined compared to the previous two years.

Figure 1: Vietnam M&A landscape '20 – 10M'2022

2020 – 10M/2022

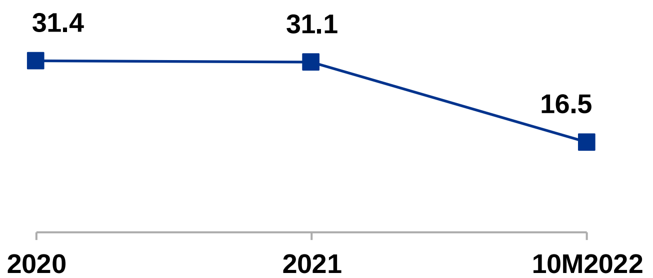


Transaction value is on a downward trend

Concerns over macroeconomic trends impacting investment opportunities in Vietnam have resulted in a drop in transaction volume, aggregate in transaction value, and average deal size.

Figure 2: Average ticket size

2020 – 10M/2022, USDmn



Average deal size for a transaction with disclosed value has declined from USD31.1 million in 2020 to USD16.5 million in 10M2022. The overall number of megadeals (deals in excess of USD100 million) concluded over the review period has dropped by half, with 13 deals recorded in just 10M2022 vs 22 deals in the same period last year.

Source: Capital IQ, KPMG Research & Analysis .

Notable megadeals in 2022

Notable megadeals in 2022 lie in Real Estate, Renewable Energy, Consumer Discretionary, and Consumer Staples sectors

The market witnessed a number of notable deals from both foreign and local investors in 2022. The largest deal of the year was Capital Place, a Grade A office skyscraper located in the center of Hanoi, that was purchased by one of the industry's leading players for USD523.4 million.

In same sector, No Va Land received a USD250 million investment from Warburg Pincus, a leading international private equity firm specializing in growth investing, in order to expand its land bank and advance key projects.

In respect of Energy - Utilities sector, a renowned provider of renewable energy with headquarter located in Madrid, Spain, EDP Renovaveis, S.A.(EDPR) recently came to terms with Xuan Thien Group to purchase two solar power projects in Thuan Bac district, Ninh Thuan province with total capacity of 200MWac for USD284 million. This deal will enable EDPR to strengthen its presence in the APAC region.

In Consumer Discretionary sector, The Sherpa Company Limited, a division of Masan Group Corporation, acquired 65% of Phuc Long Heritage’s capital for USD260.6 million. Singapore's Seletar Investments, Seatown Private Capital Master Fund, and Periwinkle acquired approximately 36% of Golden Gate's stock valued at around USD234 million from Prosperity Food Concepts Pte Ltd. It is noted that Seatown is an investment fund of Seatown Holdings in Singapore, also a group of Temasek’s ecosystem.

Also, Pharmacity - one of the largest chains of pharmacies in Vietnam, has joined in SK Group, with the aim to enter Southeast Asia's rapidly expanding retail and healthcare markets. Such a deal will likely strengthen Pharmacity's plans to expand to other areas in the country. Although the deal value was not disclosed, we believe this was one of the year’s landmark deals.

Top largest deals in 2022

Name of deals	Sector	Seller	Buyer	Value (USDmn)
Capital Place	*Real Estate*	*CapitaLand Investment Ltd*	*A major player in the real estate sector*	523.4
200 MW solar parks	*Utilities*	*Xuan Thien Group*	*EDP Renováveis, S.A. (EDPR)*	284.0
Phuc Long Heritage JSC	*Consumer Discretionary*	-	*The Sherpa Company Limited*	260.6
No Va Land Investment Group Corporation	*Real Estate*	-	*Warburg Pincus LLC*	250.0
Golden Gate Trade & Service JSC	*Consumer Discretionary*	*Prosperity Food Concepts Pte Ltd*	*Seletar Investments Pte Ltd, Seatown Capital Pte Ltd, and Periwinkle Pte Ltd*	234.0
Pharmacity Pharmaceutical JSC	*Consumer Staples*	-	*SK Group Ltd*	N/A

Source: Capital IQ, Trade Press, VIR, KPMG Research & Analysis.

Key M&A sectors

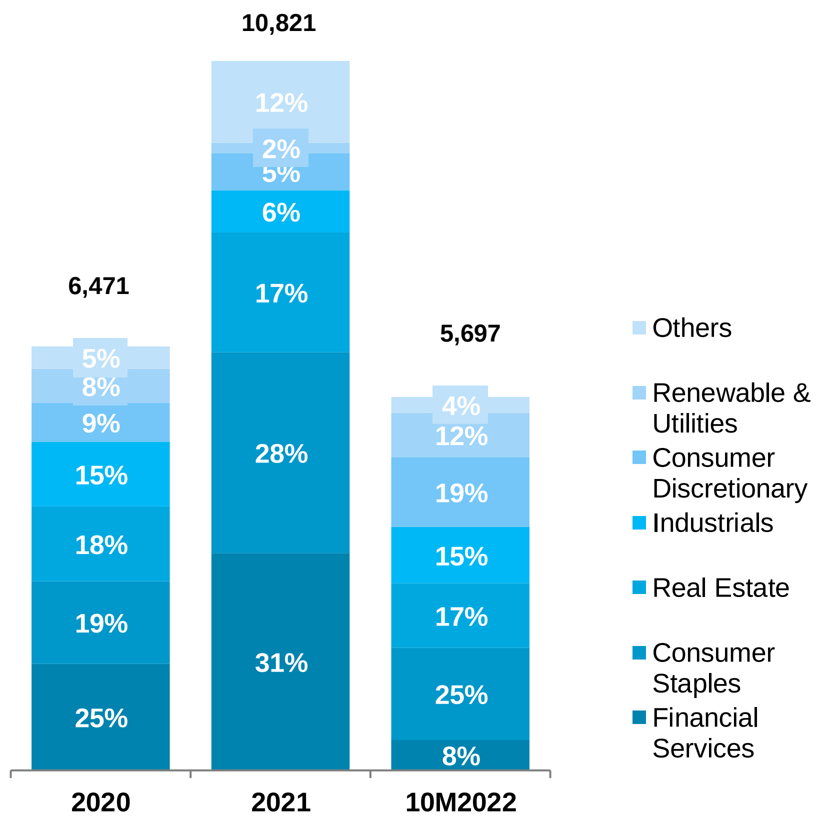
Consumer Discretionary, Industrials, Real Estate, and Energy - Utilities are the largest FDI recipients

The most sought-after targets, when split down by industry, are in the consumer, industrial, real estate, and energy - utilities sectors. Together, these sectors account for for over 80% of the total value in 10M2022. In 2022, the Consumer Discretionary, Industrials, and Energy - Utilities sectors will all return to their previous levels or possibly even rebound stronger, while the Real Estate sector will continue to be a merger and acquisition hotspot. They have benefited greatly from consistently high demand for office and industrial property, the recovery of consumer confidence and spending, this is due to the sizable population, a growing middle class, and a rapid rate of urbanization, as well as a quick recovery of economic fundamentals following the pandemic.

On the other side, because investors have shifted their attention to developing sectors like Consumer Discretionary and Energy - Utilities, M&A activity in Financial Services sector, which was active in 2021, has slowed down dramatically in the first ten months of 2022.

Figure 3: M&A value breakdown by sector

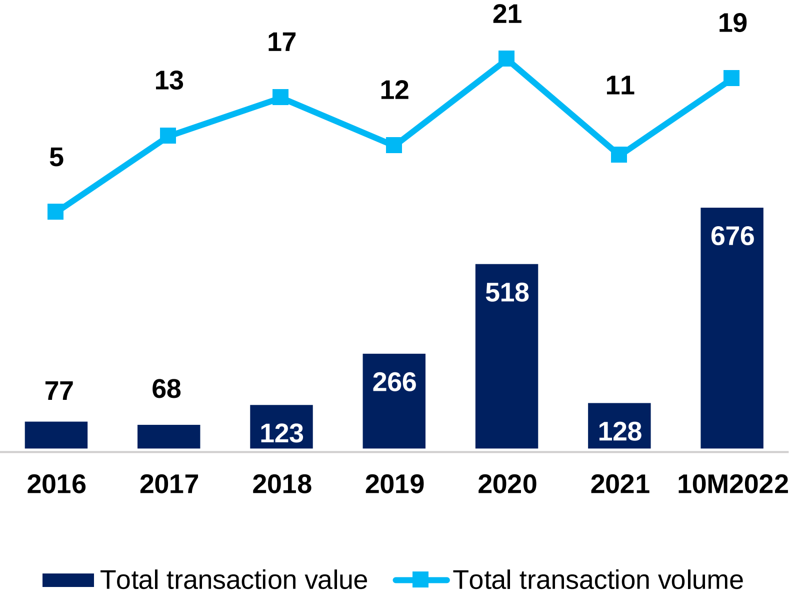
2020 – 10M/2022, USDmn



Key M&A sectors

Figure 5: Energy & Utilities M&A activities

2020 – 10M/2022, USDmn



The rise of Energy & Utilities transactions

Along with the previously highlighted sectors, investors are becoming increasingly interested in Energy & Utilities. From 2016 to 2021, the M&A landscape in Vietnam for Energy & Utilities improved steadily, with a CAGR of 10.7% for deal transaction value and 17.1% for transaction volume.

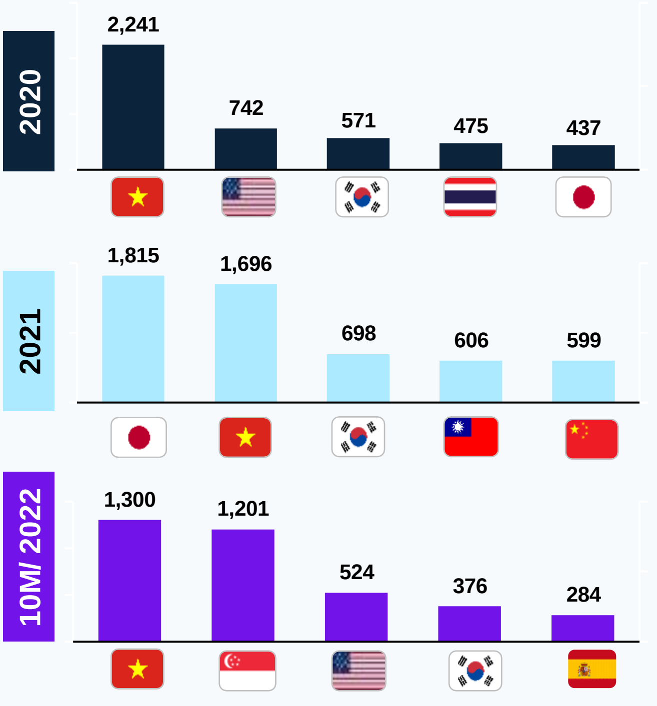
However, the first ten months of 2022 have seen a significant increase in this sector as the volume of Energy & Utilities transactions has doubled and the aggregate transaction value has increased fivefold to USD676 million as compared to the entire year of 2021, surpassing even the pre-pandemic level of USD518 million in 2020. The main key drivers of this change are Government initiatives focused on sustainability. Promulgation of a tariff framework for transitional projects and finalization of PDP-8 shall provide the necessary impetus for further investments in this sector.

By 2025, renewable energy is anticipated to overtake fossil fuels as the primary means of generating electricity in the world (according to the IEA). The M&A market experienced a surge as a result of investors shift their focus to the clean energy sectors. As a result, the Energy & Utilities sector will see more investment in its operations than ever before.

Domestic investors dominate M&A market

Figure 6: Ranking of top 5 investors by value

2020 – 10M/2022



Along with the diversity of overseas investment, local players became more active in M&A

Vietnam's M&A market has erupted with a frenzy of transactions over the last three years where both transaction value and volume were being driven by Vietnamese companies. Historically, M&A activities were mainly driven by foreign investors, especially from Thailand, Singapore, Japan, South Korea and Taiwan. However, the markets are now witnessing a shift towards local players as they are becoming more active in M&A activity since 2020

In 2022, it is observed that local investors picked up the pace and dominated the M&A market as they required a channel for capital mobilization to rapidly recover from the pandemic and reform business models, this is shown by its expansion of share in deal values as compared to foreign players.

More conservative approach towards investment after the pandemic, together with more recent risks such as inflation, geopolitical, and gap between buyer and seller's expectations have likely impacted foreign buyers' risk appetite, resulting in a slow down in cross border M&A.

Singapore, the US, Korea, and Spain are among the most active foreign buyers this year. In 2022, these foreign investors contributed more than 40% of total deal value.

Source: Capital IQ, Fitch Solutions, KPMG Research & Analysis .

Heading into 2023

Prospective M&A opportunities amidst the rising concern of market instability in FY2023

With uncertain outlook for the global economy, Vietnam may face a slowdown in 2023 after a record GDP growth of 8.8% in the first 9 months of 2022.

Besides, domestically, recent fraud crackdowns, interest rate hike and a weakened currency have also put the country into further challenges in the year to come. From our experience, such conditions have always caused investors to be more cautious whenever considering an M&A decision.

In our recent survey for Private Equity clients, sentiment toward M&A activities seem split between neutral and more deals in 2023. Obviously, what is driving Respondents who pick more deals is they see opportunities in decreasing valuation. The current market is offering a much more compelling valuation than in 2021 and early 2022. This is reflected by the expectation that valuation multiples would continue to decline heading into 2023. From Private Equity perspective, it would be a favorable environment to pick the right winners or the right target companies to back. Private Equity funds into Asia are sitting on a record high dry-powder of USD650 billion, according to a 2022 report by Bain & Company.

For those who opt for neutral or even decrease in terms of deal activities, we see inflation and high interest rates would be the two key factors for their decision. From our running deal experience, this sentiment would normally translate into deal structures with a longer performance commitment, stricter downside protection or higher earnt-out component in order to reward Sellers for future performance.

On the back that inflation and interest rate will eventually come down and thus restoring investor and consumer confidence, we expect to see M&A activities in Vietnam recover starting from the second half of next year. When this trend resumes, digital transformation, shift toward clean energy, huge consumer market and rising ESG awareness continue to be key themes for future M&A in Vietnam.

Figure 7: Respondents seem neutral or more positive about deal activities in FY2023

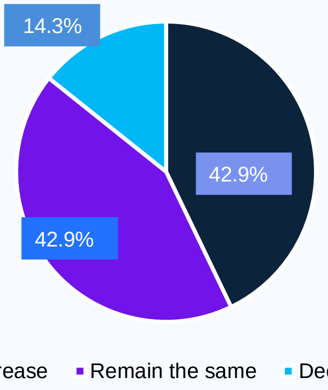


Figure 8: ESG compliance is among the imperatives in achieving higher deal valuation

100% *of the respondents rank ESG & Sustainability highly in their deal criterion.*

100% *of the respondents consider ESG compliance as an important driver in deal valuation.*

71% *of the respondents acknowledge the consistent level of maturity of ESG imperatives across sectors.*

Factors to be taken into consideration for M&A opportunities in 2023:

- Potential megadeals in Financial Services sector which may change the landscape of the M&A market if they are concluded in 2023;
- Divestments of Government Stake in major State-Owned Enterprises (SOEs) may bring new energy to the M&A market;
- Continued megatrends of “Go-Green” and “Emerging Middle Class” will bring more investments into the Energy sector.

Source: Capital IQ, Fitch Solutions, KPMG Research & Analysis .

The importance of ESG in deal making

How much is EBITDA? How leveraged is the business? What are the working capital requirements? What is the effective rate of tax?

These are all fairly common/standard questions that people involved in M&A activities have asked for years. The answers can generally be determined by looking at and analyzing the financial information of the target business.

How does climate change impacts business? What is the business strategy to achieve net zero? Has the business implemented ethical supply chain policies? What are the Diversity and Inclusion policies of the business? Does the business have effective risk management systems? These are the sorts of questions that prospective investors/buyers are increasingly asking because they want to invest in sustainable businesses and in businesses that drive sustainable growth.

The failure to understand, assess and mitigate ESG related risks as part of an M&A transaction can result in transactions being incorrectly priced. This can result in necessary conditions being left out of transaction documents and can, quite simply culminate in value destruction. Equally, failure to identify ESG related upside opportunities can result in a target business being undervalued and can result in the business failing to achieve its real potential.

Issues that can destroy or create value are simply not evident from looking at and analyzing numbers. It is important for prospective investors/buyers to look holistically at the target business and at the overall environment in which the target business operates. The overall environment in which the business operates needs to be assessed (not just the target business itself) as such things as access to resources, consumer sentiments, labor market dynamics, supply chain resilience and climate change impacts cannot simply be assessed at an entity level.

It has been fairly normal for prospective investors/buyers to undertake Legal, Financial and Tax Due Diligence of the target business and it is becoming more common for prospective investors/buyers to undertake ESG Due Diligence and to actively look for Value Creation opportunities through assessing how changes can be made to the ESG related policies and practices of the target business.

When assessing what ESG issues should be considered as part of a transaction process (e.g., when sellers are shaping their value story or when prospective investors/buyers are instructing their advisors) the materiality of the issue to stakeholders in the business needs to be considered as it is simply not possible (or necessary) to assess any and all ESG related risks and opportunities. For a mining business it is likely that the “E” will be more important than the “S” or the “G”, for a people focused services business it is likely that the “S” will be most important and for a consumer goods business “E”, “S” and “G” may be equally important

If you are considering a M&A transaction (either as a seller or a buyer) understand the issues of greatest significance to your sector, to the markets and communities where you operate and to the specific stakeholders in the business itself. If you can then assess the downside risks and upside opportunities associated with the contemplated transaction it will almost certainly lead to better outcomes.

ESG in deal making should not be optional. It is no longer a nice extra; it is absolutely essential to the success of the contemplated transaction.

John Ditty – Partner, Head of ESG at KPMG Vietnam shared his view on the importance of ESG in deal making

KPMG Tax and Advisory Limited Branch

Ho Chi Minh City
10th Floor, Sun Wah Tower
115 Nguyen Hue Street, Ben Nghe Ward,
District 1, Ho Chi Minh City, Vietnam

T: +84 (28) 3821 9266
F: +84 (28) 3821 9267
E: kpmghcmc@kpmg.com.vn

Hanoi
46th Floor, Keangnam Hanoi Landmark Tower
72 Building, Plot E6, Pham Hung Street,
Cau Giay New Urban Area , Me Tri Ward,
South Tu Liem District, Hanoi, Vietnam
T: +84 (24) 3946 1600
F: +84 (24) 3946 1601
E: kpmghanoi@kpmg.com.vn

Scan to visit our website: kpmg.com.vn
Email: kpmghcmc@kpmg.com.vn