Fund sets sights on Vietnam

BY JONATHAN BRAUDE

Vietnam is a Socialist Republic, one of the world's last Communist nations. But, like the People's Republic of China to the north, it has embraced a brand of socialism with some distinctly capitalist characteristics.

That's allowed dedicated Vietnam private equity fund VinaCapital Investment Management Ltd., an affiliate of Hong Kong-based **Pacific Alliance Group Ltd.**, to do good business, bulking up to be the largest asset manager in Vietnam, with $820 million under management.

Such good business, in fact, that the VinaCapital Group's real estate fund, VinaLand Ltd., a $205 million investment company admitted to trading on the AIM Market of the London Stock Exchange, is coming back for a second round of cash.

On Jan. 19, it announced a $200 million fundraising to be launched in February, via a new share placement. Existing shareholders will be given a pre-emptive preference in case the $1.38 a share offering is oversubscribed, and the team will conduct a roadshow in Europe and the U.S. early next month. Shares will be allocated in mid-March and are expected to list on AIM on March 23.

"We think Vietnam's like Shanghai a few years ago," said Don Lam, VinaCapital managing partner, pointing to exciting markets for commercial property and the demand for consumer goods from the country's fast-growing middle class. Though it clearly still has some way to go before it catches up with China's financial metropolis, Vietnam's GDP is crackling along at 8% to 9% a year, with the main commercial hub, Ho Chi Minh City (formerly Saigon), moving ahead at 15% a year.

Unlike China, Vietnam has a young population, with 50% of its people under 25. Increasingly, couples are looking to get married and find a place of their own to live.

And, especially because of the political uncertainty in Thailand and Indonesia, tourism is picking up fast. It's growing at 25% to 30% a year, according to Lam.

All of which plays into VinaLand's sweet spot: commercial property deals, which fit in with official plans. For instance, said Lam, the fund already owns two five-star hotels and wants two more. It's working with state-owned textile, tobacco and gas station businesses to relocate town-center factories and depots out of town, so it can build shopping malls and other amenities where people want them.

The VinaLand fund has already invested $100 million, raising 50% leverage locally through the Vietnam offices of global institutions such as **HSBC Holdings plc** and **UBS**. Another $70 million will be invested by June, and $150 million is expected by the end of the year. The completion of the new fundraising by April will, in Lam's words, be "perfect timing."

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Of course, experience in other fast-growing Asian countries like China suggests possible trouble with corrupt officials, displaced farmers looking for compensation and a host of bureaucratic and legal tangles. Vietnam ranks at 111 out of 163 countries in Transparency International's Corruption Perceptions Index, hardly a glowing score, and does a middling-to-poor 77th out of 125 countries in the World Economic Forum's Global Competitiveness Report.

But Lam is undaunted. "The main difference with China," he said, "is size. China's so big, it's much more difficult to control. The Vietnam government has tighter control. There's much less corruption."

True, he said, the government is rightly insistent on compensation based on true, open-market values, allowing those displaced by commercial projects to purchase equivalent property.

"This has created a sense of confidence in property ownership and has stimulated demand."

What's more, it has been a further boost to VinaLand's residential property business, as the fund has bought residential units to sell to people displaced by new developments. But VinaLand's focus on taking over city-center sites from state-owned corporations seems otherwise to shield it from outside interference. "There's only one party to negotiate with," Lam said.

Echoing VinaLand's official Jan. 19 announcement, Lam focuses on the positive changes in Vietnam's regulatory environment, particularly since its accession to the World Trade Organization in November forces it to comply with international standards.

Lam points out that the government recognized real estate as one of the drivers of the economy in 2004, stimulating the sector with initiatives including planning reforms and improving foreign-invested companies' access to large-scale projects.

Recent government-to-government initiatives have allowed developers from Japan, Singapore and South Korea to move forward on large-scale projects. ■