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VIETCOMBANK EQUITIZATION

Finally, Bank for Foreign Trade of Vietnam (Vietcombank or VCB) has been equitized and transferred into the joint stock company model after 4 years with a lot of delays and debates. The biggest IPO in Vietnam has happened so far. The bank received a huge amount of money - more than \$600 million - and became the biggest public firm in terms of market capitalization with the value about \$10 billion for 1.5 billion shares at the IPO's price.

However, it was reluctant to say that it was successful because after a year, the road ahead is still ambiguous. The answers for important questions such as when its shares will be listed, who will become the bank's strategic investors, what the long-term strategy is and on and on have not yet given while the stock price has gone down more than two thirds, the market capitalization has gone down three fourths and nothing changes because the state still owns more than 90 percent of the bank.

Frankly, there were preconditions for a successful equitization including (1) considered one of the most efficient state-owned enterprises (SOE) and the best commercial banks in Vietnam, (2) gotten support, high determination and unification of leading levels, and (3) the equitization was implemented at the hottest period of the stock market, but the results were far from the expectation and there are many things to do for VCB to become a truly commercial bank.

What reasons have made such a situation happen and what implications for policymakers and firms' management to both get success and avoid pitfalls for next cases, especially for big SOEs who have been put in the equitization list for the period to 2010 and beyond?

Equitization in Vietnam

Equitization, as a measure of SOE reform, can take one of the following four forms: (1) keeping state shares intact and issuing new shares; (2) selling part of the existing state shares; (3) detaching and then selling parts of an SOE; and (4) selling off all state shares to workers and private shareholders (a method mostly applied to loss-making SOEs). Compared with the widely accepted definition of privatization, which is a means of transferring ownership and control rights from the state to private shareholders, there is not much difference between Vietnam's equitization and privatization.

The objectives of and requirements for conversion of State owned companies into shareholding companies (hereinafter referred to as *equitization*) shall be: (1) To convert those State owned companies in which it is not necessary for the State to continue to hold one hundred (100) per cent of charter capital into shareholding companies with many owners; to mobilize capital from both

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domestic and foreign individuals, economic organizations and social organizations for the purpose of increasing financial capacity and renovating technology and management methods in order to raise the efficiency and competitiveness of the economy. (2) To ensure harmony between the interests of the State, the enterprise, the investor and employees of the enterprise. (3) To ensure public notification and transparency on market principles; to overcome the situation of equitization taking place in secret within enterprises; and to ensure that development runs parallel with development of the capital market and the securities market.¹

The first round of SOE reform started in 1989. Initial reform measures sought to dissolve unprofitable SOEs and rearrange the others by means of merger and consolidation. The number of SOEs declined from 12,300 in the late 1980s to 6,500 by 1992. In 1992 the government decided to experiment with equitization as part of SOE reform. Major waves of equitization, however, were undertaken until mid 1998. Since then, more than 2,000 SOEs have been equitized, helping bring down the state sector's total share of GDP from 42% in the early 1990s to around 39% in 2003. Employment in the state industrial sector fell from 2.5 million in 1990 to around 1.6 million in 2000. Statistics about the number of jobs created by these new equitized enterprises do not exist, but a recent survey reports that equitization raised about US\$ 0.8 billion from domestic investors.² By April 2008, 5,366 SOEs have been rearranged. In which 3,756 SOEs have been equitized. The business results of 850 equitized enterprises show that the efficiency and scale of enterprises have significantly increased. Chartered capital has increased 44 percent; revenue increased 23.6 per cent; profit increased 139.76 percent. Particularly 90 percent of equitized enterprises have got profit; labor productivity increased 63.9 percent; labor income increased 12 percent and number of labor increased 6.6 percent.³

In fact, there are a lot of problem has been happening in reform of state-owned enterprises as well as reform of financial system in Vietnam. Especially, shortcomings and problems of equitization in Vietnam have emerged recently when the stock market boomed and burst. According the approved plan, in 2007-2010, 1,553 SOEs will be rearranged. In which 950 SOEs will be equitized. However only 271 SOEs were rearranged and 150 ones were equitized, equal 21 percent of the plan.

The goal to 2010 is that only 554 SOEs will be remained in the form of 100 percent SOEs. In which, there are 26 conglomerates; 178 enterprises operating in security and defense sector and basic utilities; 200 farms and 150 subsidiaries of conglomerates or corporations.

Vietcombank Equitization

Being one of the five state-owned commercial banks (SOCB), founded in 1962 with specializing in foreign trade, and transferred to a commercial bank in early 1990, Vietcombank has played a big role in foreign trade for decades. Thanks to privileged position along with taking opportunities, it has recently emerged as the best bank in Vietnam after facing troubles related economic scandals such as Minh Phung – Epcor or Tamexco in the mid and late 1990s. However, as a SOE, inherent problems still exists in the bank and they might not be solved without a truly transformation or significant reform. Not only do these issues cause negative effect for the bank, but also Vietnam's banking system.

In order tackle the weaknesses of the banking system, SOCBs as well, Vietnam decided to reform banking sector, in which equitizing SOCBs is one of the top priorities. In order to ensure success for equitizing enterprises in the sensitive sector and big SOEs, VCB was chosen as a pilot.

The objectives of the equitization of VCB in particular and SOCBs in general were to (1) Enhance management and governance capabilities, modernizing banking technologies for better operation

¹ See Article 16 of Decree 187, 2004

² See Tu Anh (2005), "Vietnam- The Long March to Equitization

³ See "Cổ phần hóa DNNN: Đầu xuôi, đuôi chưa lọt" <http://www.tgvn.com.vn/Story/vn/home/baichu/2008/4/1142.html>

efficiency and capital utilization; (2) Improve financial capability for the bank's operation and development; (3) Improve the bank's competitiveness for international economic integration; (4) Well-position the bank as one of the key players in Vietnam's banking industry.

What happened

Equitizing Vietcombank was very meaning and important for Vietnam. It was both an experiment for equitizing big SOEs and reforming financial system deeply, especially SOCBs. If the process was successful, it would become the catalyst promoting equitization process and reforming banking system and if not, it might slowdown these processes. Because of the importance, not only VCB, but also the State Bank of Vietnam (SBV) and the government were very interested in it. The enthusiasm along with prudential was the main stance. These stances have been showed clearly in series of actions and decisions of three main levels, the government, the SBV and VCB for more than 4 years. In which, three important decisions related VCB's equitization issued by the Prime Minister in three consecutive Septembers partly showed the importance of the case.⁴

By considering what happened for more than 4 years, the equitization process of VCB can be divided into three periods including: the preparation period, the IPO and after IPO (see figure 1).

The Preparation Period

Lasted for about three years with starting in February 2004, when the equitization plan was released and ending in February 2007 when the consultant firm was chosen, the preparation went slowly and the plan had been changed frequently. These showed awkwardness in implementing a pilot and the conflict between enthusiasm and prudential for a sensitive and complicated case.

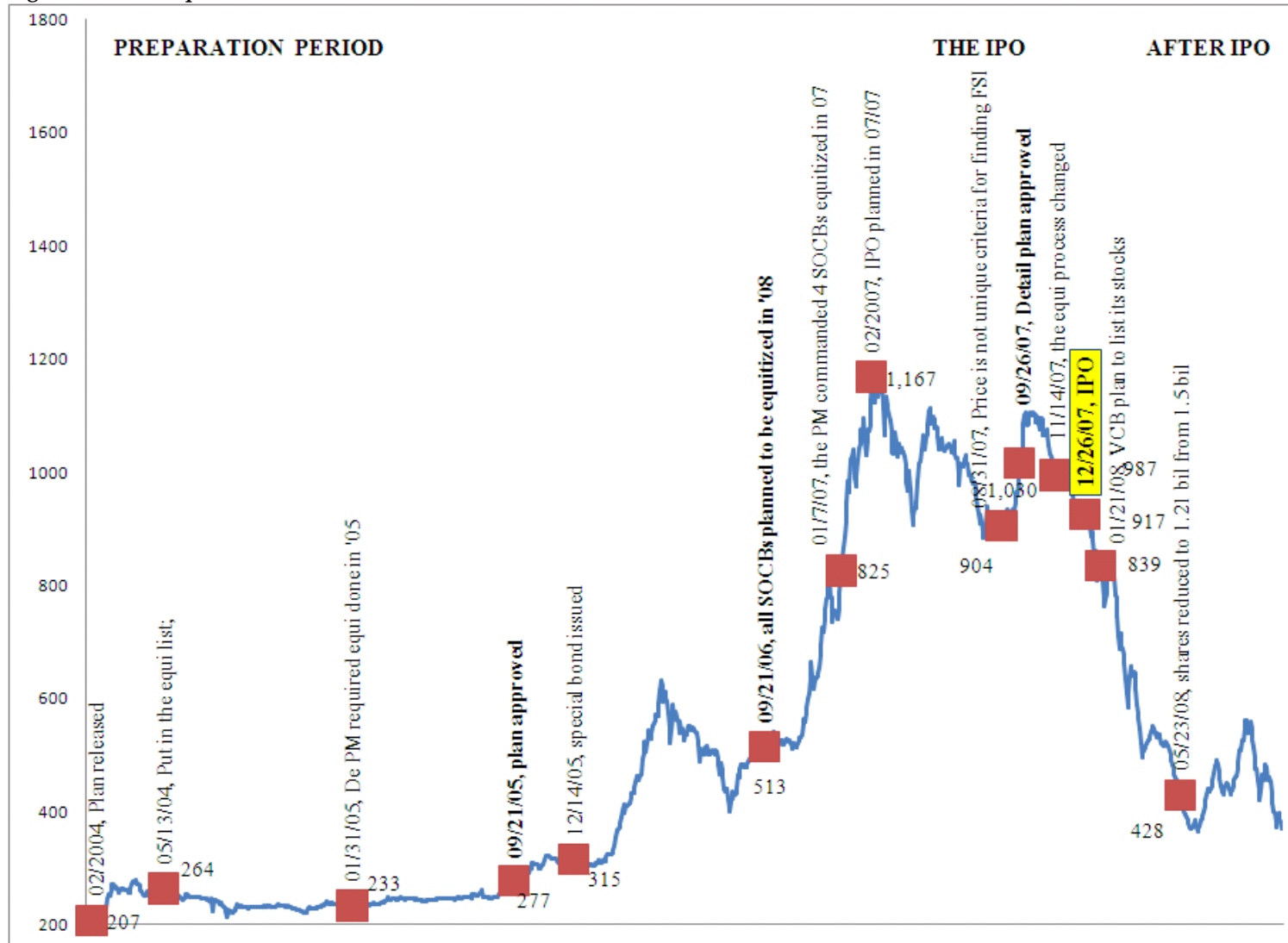
Authorized people eagerly wanted the equitization to be done quickly. At least three times, the governor of SBV and VCB's CEO announced that the plan would be implemented soon. Especially, in the meeting with VCB in January 2005, the standing deputy Prime Minister commanded that equitization of this biggest SOE has to be implemented in 2005. *"It is not necessary to form a steering board. I am directly directing this issue. VCB has to submit the plan in the first quarter "*, Deputy Prime Minister said.⁵ When the process went too slowly, the PM rebuked SBV. These actions and decisions showed that the leading levels really did want the case to be implemented soon.

However, the awkwardness and prudential were reflected in changing the plan frequently and debates. First, in the initial schedule, VCB planned to issue VND 2 -2.5 trillion preference stocks to increase chartered capital first. This amount of money was equal to one third of the bank chartered capital. The common stock would be issued by 2005. However, according Decision 230/2005/QĐ-TTg dated Sep. 21, VCB shall sell shares in many rounds to increase its capital, with shares sold in each round accounting for no more than 10% of its charter capital, while ensuring that the proportion of its charter capital owned by the State shall not be lower than 70% in 2006. From the 2007-2010, VCB will continue selling shares in order to increase its charter capital but the proportion of its charter capital owned by the State must not be lower than 51%). Second, debates related to definitions and methods such as preferred stock to convertible bond to bond for increasing capital, valuation and choosing consulting firm often happened. These unnecessary details took a major part of time in this period.

The difficulty and complicatedness of the case showed clearly in speeches of the governor of state bank of Vietnam.

⁴ In September 2005, deciding the pilot equitization of Vietcombank, in September 2006, decided to equitize all SOCBs and detail equitization plan was decided in September 2007. This showed the importance of the case.

⁵ <http://vietnamnet.vn/kinhte/2005/02/371796/>

Figure 1: VCB's Equitization Process

*"Everyone knows that equitizing banks is touching to a sensitive issue. The party and the state consider banks as the artery of the economy, especially state-owned commercial banks called the decisive, major factor of the system. Now touching to this pillar, if carelessly, something wrong may cause negative effects for economics and politics and society" the governor of SBV acknowledged.*⁶

Perhaps, the most significant action done in this period were issuing convertible bond and the plan approved. Although, VCB eagerly implemented necessary procedures after the equitization plan was released with strong support of SBV and the government, the equitized time was changed from 2005 to 2006 to 2007 and switch to the IPO period.

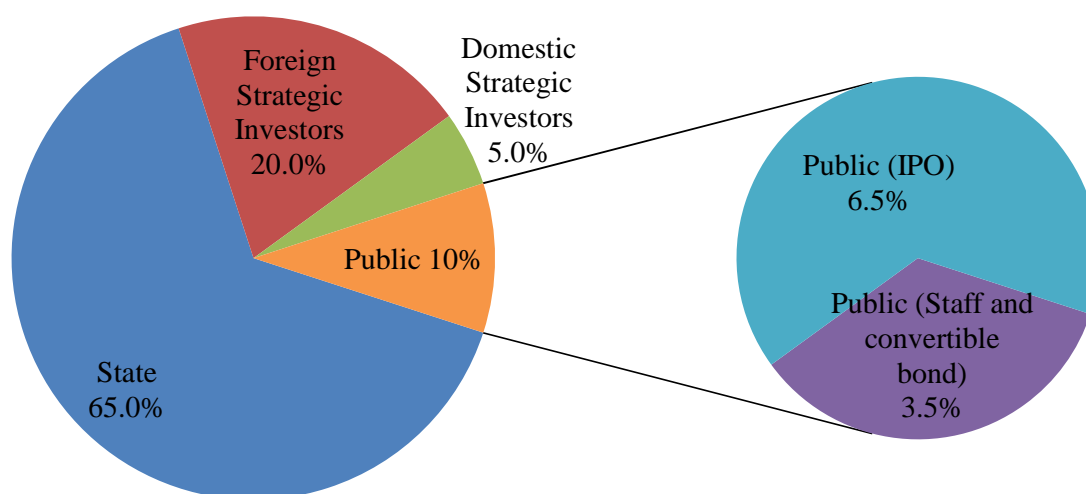
The IPO

Started on February 12, 2007 when the consultant firm, Credit Suisse was chosen and ended on December 26, 2007 when the IPO was launched, the IPO period showed the dilemma or paradox that authorized people had to face when deciding important decisions. Two of them are the way to implement the IPO and the price set for the IPO.

Again, in this period, a lot of announcements were released, in which one of the most noticed announcement was that price is not unique criteria for finding foreign strategic investor, they commit for technical support and investment co-operation, especially holding shares after IPO released in late August 2007. This issue along with others was decided in the Decision 1289/QĐ-TTg approved by the PM dated September 26, 2007. In which, the equitization was divided into two rounds. In the first round VCB will issue 30% chartered capital in which sold out public 6.5%, sold for VCB's staff and bondholders 3.5%, domestic strategic investors 5%, foreign strategic investor 20% (see figure 2). In the second round, international issuing and listing is not more than 15%.

The most remarkable point in the decision is that the strategic investor will be selected before IPO. And with 15 trillion chartered capital correlated to 1.5 billion shares, the number of shares planned to be sold at the IPO were about 100 million.

Figure 2: VCB's Planned Shareholder Structure



Source: Decision 1289/QĐ-TTg, September 26, 2007

⁶ <http://tintuc.timnhanh.com/kinh-te/chung-khoan/20061216/35A58EFC/>

With the planned shareholder structure, it would be a significant change for Vietcombank. Therefore, it seemed that authorized people wanted to have a typical equitization case that would be applied international rules. However, the life was not simple like that.

The plan changed

In October, there was rumor that GE capital, Nomura and Goldman Sachs were in the short list for choosing strategic investors. These firms offered price from VND43,000 to 67,000 per share.⁷ However, a representative from Vietcombank corrected that Goldman Sachs was not in the short list and a group led Nomura instead of Nomura alone. At the offered price, the capitalization of Vietcombank would be about \$4 to \$6 billion. It was higher than valuations based on banks in the world as well as the price foreign investors paid for china's banks.

However, the expectation of the public as well the bank and authorized people was much higher than prices offered by foreign investors. So that, after tough negotiations with foreign investors but failed, Vietcombank and authorized people decided to change the equitization process by doing IPO before choosing strategic investors instead of following the reversed direction (choosing strategic investors first), a common norm in the world. In the new (final) plan, the price sold for strategic investors is average price of the IPO. The spoken person of Vietcombank explained that the reason made Vietcombank change process was that strategic partners offered too low price that might damage the state asset and interest of individual investors.

So far, the price that Credit Suisse calculated and advised for VCB has not been released yet, but it seemed that VCB and authorized people had to face a dilemma when decided the price for the IPO because of the difference between the public expectation and the value based on profit potential of the bank at that time and foreign investors' offer as well.⁸ Finally, VN100,000 per share was the set up price for the IPO. Scenarios of VCB valuation were illustrated in figure 3.

Figure 3: VCB valuation in scenarios

No	Scenarios or prices based on	Stock price (VND 1000)	Market Cap US\$ billion	<u>Market Cap</u> Asset 2006	P/E** 2006
1	Public Expectation before IPO	120 -200	11-18	110%-180%	65-107
2	Vietnam Economy*	<40	<4	<40%	<21
3	Average of banks in the world*	<40	<4	<40%	<21
4	Strategic Investors' prices	43-65	4-6	40%-60%	21-32
5	IPO's price	100	9.30	93%	54
6	Auctioned price	108	10.00	100%	58
7	One year after IPO***	29	2.1	27%	15

Source: Authors' estimation and calculation from various sources

*Authors estimation

** Profit in 2006

*** The price in October 21, 2008 is about VND 35,000- 36,000 but there are only 1.21 billion shares instead of 1.5 billion shares in the initial plan, so that adjusted price is only VND29,000.

For more detail see exhibit 1, 2 and 3.

⁷ According to an unofficial information source, the price based on valuation of one of firms bidding VCB shares, was only VND 25,000 or the market capitalization of VCB was more than \$2 billion, but they offered higher price because they wanted to enter the new market.

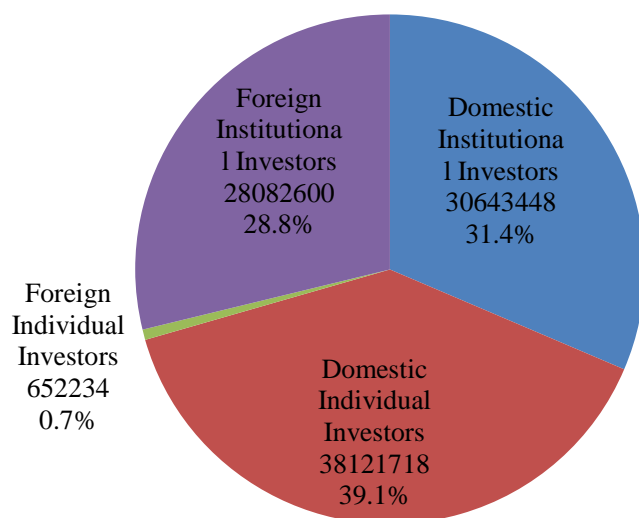
⁸ Valuation methods: According to article 16 of Decree 187, 2004, when a SOE undergoes equitization, it shall apply one of the following methods of valuation of the enterprise: (1) The asset method; (2) The discounted currency method; (3) Other methods.

Box : China Banks

Three of the big four in China have been equitized and implemented IPOs. They become the biggest IPOs in the world. However, the price these banks sold for foreign strategic investors were much lower than average of banks in the world and much lower than their market value after IPO. For example, in January 2006, ICBC sold 10% of its shares to Goldman Sachs, Allianz and America Express at price \$3.8 billion. At this price, value of the bank was equal to 5.6% of its total assets and less than one fourth of the IPO price, and one eighth of the price one year later. In August 2005, Bank of China sold 10% of its shares to Royal Bank of Scotland and co-investors at the price \$3.048 billion. At this price, value of the bank was equal to 5.9% of its total assets and much smaller than IPO price as well as price of one year later.

IPO's result

On December 26, 2007, the biggest IPO in Vietnam happened. Average auctioned priced was VND 107,860. The lowest and highest prices were 102,000 and VND 250,000 respectively. At auctioned price, market capitalization of VCB was approximated VND 10 billion and investors paid more than \$600 million to buy 97,500,000 share. The IPO structure was in the figure 4.

Figure 4: VCB IPO Result⁹

It seemed that it was not easy to find anyone who satisfied with the IPO's results. The banks has not yet had strategic investors, the bank's staff was disappointed because their compensation was too thin. Long-term investors did not attend because the price was too high and speculators had no chance to earn money thanks to price accelerating.

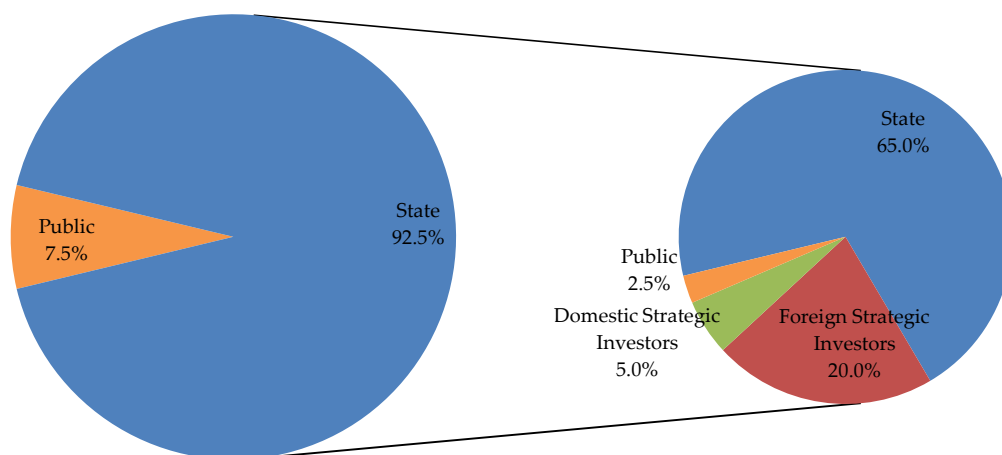
After IPO

After VCB's IPO, Vietnam stock market went to the bear market, the VN-Index has been going down continuously and VCB share price went down too. Compared to the time at the IPO, the current price has been gone down more than two thirds and the market value gone down more than three fourths.

⁹ The reason IPO that constituted the structure is 70% domestic investors and 30% foreign investors is Vietnam regulation. Foreign investors are not allow to own more than 30%

¹⁰ Four months after IPO, the first shareholders meeting took place. ¹¹ However, the meeting was considered unsuccessful one because at that time choosing strategic investors or schedule for listing were very ambiguous.

Figure 5: Current Shareholder Structure



Source: VCB's document for the first shareholder meeting

With the current shareholder structure, it seems that nothing changes, because only a tiny proportion of share sold out will have no effect to the bank and the banking system as well.

The way ahead

There were preconditions including good firm, high determination and unify of leading levels and the hot stock market for a successful equitization. However the results were far from expectation and there are many things to do to become a truly commercial banks. What reasons have made such a situation? Perhaps, this is a useful case for policymakers and banks and SOEs management to analyze to find suitable ways for the next equitization in particular and for reforming state sector in general.

¹⁰ The reason making VCB market cap declined three fourth while the stock price only went down two third is that there were 1.5 billion shares in the initial plan and the number was adjusted to 1.21 billion shares after math.

¹¹ DHCD Vietcombank: Roi boi vi gia co phieu: <http://vietnamnet.vn/kinhte/2008/04/780377/>

Exhibit 1: Key Indicators of Banking System in countries in 2006

No	Country	<u>MV</u> Asset	<u>MV</u> GDP*	<u>Asset</u> GDP*	P/E	ROA	<u>Profit</u> GDP*
I	Vietnam	58.3%	71.9%	123.2%	88.4	0.7%	0.8%
II	Asian countries but Japan	20.1%	23.7%	157.9%	23.2	0.9%	1.0%
1	Singapore	17.8%	43.4%	304.2%	13.3	1.3%	4.1%
2	Hong Kong/China	23.9%	21.2%	445.0%	15.7	1.5%	1.7%
3	Malaysia	16.4%	22.6%	171.4%	18.9	0.9%	1.5%
4	South Korea	13.4%	9.1%	85.1%	11.9	1.1%	1.0%
5	Thailand	12.8%	10.6%	103.5%	16.2	0.8%	0.8%
6	China	23.1%	21.2%	163.4%	34.3	0.7%	0.8%
III	Emerging Countries	29.4%	9.1%	30.9%	15.3	1.9%	0.6%
1	Jordan	50.3%	97.9%	243.5%	27.6	1.8%	4.4%
2	South Africa	17.9%	14.1%	98.0%	13.6	1.3%	1.3%
3	Brazil	25.4%	9.3%	45.9%	13.7	1.9%	0.8%
4	Saudi Arabia	94.6%	13.4%	17.7%	20.9	4.5%	0.8%
5	Turkey	28.1%	7.9%	35.2%	13.2	2.1%	0.8%
6	Colombia	47.7%	4.7%	12.4%	15.7	3.0%	0.4%
7	Morocco	37.9%	8.7%	28.8%	31.7	1.2%	0.3%
8	Chile	11.9%	2.9%	30.7%	15.8	0.8%	0.2%
9	Pakistan	32.5%	2.5%	9.5%	15.0	2.2%	0.2%
10	Mexico	44.0%	1.6%	4.5%	17.1	2.6%	0.1%
IV	Transition Countries	64.9%	8.2%	12.6%	24.2	2.7%	0.3%
1	Hungary	45.8%	9.9%	27.0%	15.1	3.0%	0.8%
2	Russia	77.7%	7.5%	12.1%	27.8	2.8%	0.3%
3	Poland	43.2%	4.4%	12.7%	20.6	2.1%	0.3%
V	Developed Countries	11.0%	22.1%	200.5%	14.1	0.8%	1.6%
1	Iceland	24.2%	127.8%	659.4%	14.1	1.7%	11.3%
2	Ireland	12.6%	28.5%	283.1%	11.9	1.1%	3.0%
3	Sweden	8.4%	25.0%	369.7%	10.9	0.8%	2.9%
4	Belgium	6.2%	19.8%	398.4%	9.2	0.7%	2.7%
5	Australia	16.4%	27.3%	208.4%	16.3	1.0%	2.1%
6	Spain	14.2%	20.7%	181.9%	15.7	0.9%	1.7%
No	Country	<u>MV</u> Asset	<u>MV</u> GDP*	<u>Asset</u> GDP*	P/E	ROA	<u>Profit</u> GDP*
7	Denmark	7.5%	14.5%	242.1%	13.1	0.6%	1.4%
8	Netherlands	5.1%	10.6%	260.9%	10.6	0.5%	1.2%

9	Israel	8.2%	10.8%	163.8%	11.4	0.7%	1.2%
10	Greece	25.0%	22.6%	112.9%	24.6	1.0%	1.1%
11	Portugal	14.1%	10.1%	89.4%	14.8	1.0%	0.9%
12	Austria	14.8%	14.1%	119.3%	29.2	0.5%	0.6%
13	Switzerland	17.7%	4.8%	33.8%	18.7	0.9%	0.3%
14	Luxembourg	3.0%	4.9%	201.8%	25.5	0.1%	0.2%
15	Finland	10.9%	1.6%	18.9%	14.5	0.8%	0.1%
VI	G7	10.0%	14.3%	142.2%	13.3	0.8%	1.1%
1	United Kingdom	7.8%	26.4%	423.1%	11.3	0.7%	2.9%
2	Canada	11.6%	16.8%	180.7%	12.5	0.9%	1.7%
3	France	5.5%	11.9%	268.8%	12.0	0.5%	1.2%
4	United States	15.9%	10.2%	80.4%	12.5	1.3%	1.0%
5	Japan	7.5%	11.0%	183.3%	15.6	0.5%	0.9%
6	Italy	14.9%	16.4%	137.6%	27.6	0.5%	0.7%
7	Germany	4.0%	1.5%	46.7%	17.6	0.2%	0.1%
	The World	11.6%	12.7%	135.8%	14.6	0.8%	1.1%

Sources: Calculation from Forbes 2000 in 2007 and World Development Indicator

*In some case, the ratios with GDP denominator are not very reliable, especially transition and emerging countries because, there are only 295 banks in the Forbes 2000-2007, not all banks in countries.

MV: Market value or market capitalization

P/E: Price to Earning Ratio and

ROA: Return on Asset.

Exhibit 2: Key Indicator of Banks in 2006

Bank	Asset US\$ bn)	Market Share	Asset GDP	MV US\$ bn	ROA*	P/E	MV Asset
Citi (US)	1,884.32	22.2%	14.3%	247.42	1.1%	11.49	13.1%
HSBC (British)	1,860.76	23.1%	79.3%	202.29	0.9%	12.16	10.9%
ICBC (China)**	800.04	22.9%	30.0%	330.00	0.6%	70.97	41.2%
BOC (China)**	585.55	16.7%	21.9%	212.00	0.6%	62.17	36.2%
Kookmin (South Korea)	179.97	22.9%	20.3%	30.29	1.2%	13.71	16.8%
UOB (Singapore)	105.16	31.6%	79.6%	20.51	1.6%	12.21	19.5%
Public (Malaysia)	41.76	19.5%	28.0%	8.77	1.2%	17.90	21.0%
Kasikorn (Thailand)	26.32	15.4%	12.8%	4.50	1.4%	11.84	17.1%
Rakyat (Indonesia)	12.43	22.9%	4.5%	6.33	3.1%	16.23	50.9%
Average of 20 banks	12.12	0.5%	0.6%	3.55	1.6%	18.63	29.3%
Average of 35 banks	13.04	1.0%	1.0%	2.81	1.3%	16.99	21.5%
Average of 80 banks	15.66	2.6%	2.8%	2.27	0.9%	17.07	14.5%
Average of 150 banks	21.45	6.7%	7.3%	3.38	0.9%	18.35	15.8%
Average of 210 banks	31.21	12.2%	13.1%	4.71	0.8%	18.81	15.1%
Average of 304 banks	157.34	100.0%	107.9%	18.37	0.8%	14.70	11.7%
VCB (Vietnam)***	13.05	15.0%	18.15%	9.38	1.5%	46.88	71.9%
ACB (Vietnam)	5.92	6.8%	8.23%	3.16	1.2%	43.84	53.3%
Sacombank (Vietnam)	3.58	4.1%	4.99%	1.78	1.7%	29.51	49.7%

Sources: Calculation from Forbes 2000-2006, WDI 2007 and other sources

*ROA might be higher when using average assets of beginning and end of the year

**For China banks used data in 2007. Vietnam banks data was estimated by authors in November 2007.

Exhibit 3: Valuation of VCB in scenarios

Investors' expectation

Before the price for IPO was set, many people expected that the price of VCB shares would be very high. In 2006, net profit and total assets of VCB were VND 2,877 billion and 167,000 billion respectively these figures were 5.7 times and 3.7 times of similar numbers of ACB. According the plan, 1.5 billion shares would be issued, equal to 5 times of ACB's. Based on above figures, many people expected that the price of VCB shares was, at least, as high as the price of ACB share. It was VND 172,600 on August 10, 2007. The capitalization of VCB would have been VND 259 trillion, equal to 1.5 times of its total asset and 26% of Vietnam GDP in 2006.

VnExpress, a local newspaper, conducted a quick survey and found that most individual investors are willing to pay VND130-150,000 per share. Vu Manh Vinh, an investor on ACB trading floor said that thanks to a household name, high chartered capital and robust performance, a reasonable share price is VND140,000. Mr Binh, an investor on Bao Viet trading floor, said that he knows an investor who has reserved VND3-5bil for the IPO and would accept between VND130-150,000/share. Xuan Phong, General Director of T&M Finance, says individuals should not purchase shares because the IPO is targeting and will benefit domestic and foreign institutional investors most. According to Mr Phong, individual investors who buy shares at VND130-150,000/share will pay for Vietcombank's shares by selling other securities, which will create sharp falls on the market. If an investor gets the right to buy 5,000 shares at VND150,000/share, that is VND750mil, a significant sum in this market, Mr Phong said. Vietcombank has decided to sell 6.5% of total shares to the public, 30% of which will be sold to foreign investors. As the demand is high and the supply limited, Mr Phong believes foreign investment funds are willing to pay over VND200,000/share. Mr Quyen from Tan Viet Securities Company also thinks institutional investors will be superior to individual investors, but does not believe foreign investment funds will pay over VND200,000/share. He thinks institutional investors are wise enough to make accurate and reasonable decisions.¹²

On July 24, 2007, Dr. Trinh An Huy – Chairman of CIS Securities Club “With VCB, my prediction, chartered capital is VND 15trillion, total current asset is VND 180 trillion; profit before tax is VND 4 trillion. So that when IPO, acceptable P/E is 50. Then, the price will be VND 120,000 per share.”¹³

According estimation of EPS (Empower Securities Corporation) based on share prices of ACB and Sacombank, price of VCB share was varied from 100k – 200k¹⁴

Compared to banks in the world

Compared to 304 banks in Forbes 2006, the capitalization of VCB would be about \$3-4 billion. If VCB was the same as 20 banks whose asset varied from \$8.4 to \$13.8 billion and the ratio market cap to total asset was 29.3%, VCB capitalization would be about \$3.5 billion. If it was equal to average of 35 banks whose average asset was \$13.4 billion, equal the total planned asset in the end of 2007, its cap would have been \$2.8 billion. And if it was equal average of 150 banks whose average asset was \$21.5 billion, equal to total asset in 2015-2020 plan of VCB, the capitalization of VCB would have been \$3.4 billion. If assumed that VCB had been the best in above 20 banks, the market capitalization of VCB would have been about \$4-6 billion only.

Based on Vietnam economy

¹² <http://www.shvoong.com/newspapers/viet-nam/1723863-vietcombank-ipo-little-fish/> and <http://www.vies.org.vn/module/news/viewcontent.asp?ID=2674&langid=3>

¹³ http://tintuc.timnhanh.com/kinh_te/chung_khoan/20070724/35A62F2F/

¹⁴ http://upload.eps.com.vn/reportAnalyze/VCB_Snapshot_20071219_vn.pdf

Data on country finance reports of the Economist Intelligence Unit show that in 2005, profit of more than 7,500 banks in the US was only \$134 billions, equal to 1.07% of GDP. Profit of all South Korea banks in 2006 was about \$11 billions, equal to 1.25% of GDP. If included insurance and securities activities, profit of finance sector in South Korea was less than 2.5 percent of GDP. Estimation from Forbes 2000 list, proximately profit of banking sector is only about 1% of GDP and return on asset (ROA) of good banks in the world is about 1 to 1.5%

In 2006, total profit of commercial banks in Vietnam was about 1.1% of GDP, even banks in Vietnam are twice efficient as average of banks in the world, 2% of GDP. Using discounted cash flow model with cost of capital of Vietnam banks is about 15-20% annually with growth rate is about 5-10%, the market capitalization of Vietnam banks is about VDN 200 trillion or 20% percent of 2006 GDP. This figure is almost as twice as average of banks in the world. Furthermore, assume that VCB is more efficient than other banks in Vietnam. Even though its asset is about 15% of total asset of all banks, but its account for a quarter profit. In this case, VCB's value is only about \$4 billion.

Approximately, if based on potential earning, it is difficult to persuade that VCB value is bigger than \$4 billions.

Exhibit 4: Strategic Investors in Banks in China and Vietnam and other countries

Bank	Profile	Total Asset (US\$ billion)	MV/Asset (%)	Strategic Investor(s)	Date Complete	Deal Size (US\$ million)	% of shares	Key Terms
Industrial and Commercial Bank of China	• The largest commercial bank in China with total assets of RMB5.59 trillion, end 2004	675.94	5.6%	Goldman Sachs, Allianz and America Express	Jan-06	3,800	10	<ul style="list-style-type: none"> • One board seat • Extensive cooperation in corporate governance, treasury operations, risk management, asset management, and human resource training etc
Bank of China	• Second largest commercial bank in China with total assets of RMB4.27 trillion, end 2004	516.32	5.9%	Royal Bank of Scotland and co-investors	Aug-05	3,048	10	<ul style="list-style-type: none"> • Various cooperation in credit card, corporate business, personal insurances, etc. • One board seat
				Temasek	Aug-05	1,524	5	<ul style="list-style-type: none"> • Committed to acquire no less than US\$500 million worth of shares during IPO • One board seat
China Construction Bank	Third largest commercial bank in China with total assets of RMB3.91 trillion, end 2004	72.79	6.1%	Bank of America	Jun-05	2,500	9.1	<ul style="list-style-type: none"> • Cooperation includes corporate governance, risk management, information technology, finance management, etc. • Board seats • Approximately 50 BOA employees going to CCB to provide consulting services • Option to purchase additional shares in future to increase ownership up to 19.9%
				Temasek	Jul-05	1,466	5.1	<ul style="list-style-type: none"> • Committed to acquire no less than US\$1.0 billion worth of shares during IPO • Facilitate CCB's restructuring • One board seat
Nanjing City Commercial Bank (China)	• City commercial bank	5.30	8.5	BNP Paribas	Oct-05	87	19.2	• NA

Bank	Profile	Total Asset (US\$ billion)	MV/Asset (%)	Strategic Investor(s)	Date Complete	Deal Size (US\$ million)	% of shares	Key Terms
Shenzhen Dev't Bank (China)	• Fourteenth largest bank (China)	26.84	5.3	GE Consumer Finance	Oct-05	100	7	• NA
Huaxia Bank (China)	• Regional bank	42.93	5.4	Deutsche Bank	Oct-05	325	14	• NA
Bo Hai Bank (China)	• Newly established bank	42.93	1.4	Standard Chartered	Sep-05	123	19.9	• Right to nominate vice chairman of board
Asia Commercial Bank (Vietnam)	Joint Stock Bank	1.5	30	Standard Chartered	Jun-05	45	10	
Sacombank (Vietnam)	Joint Stock Bank	1.5	18	ANZ	Mar-06	27	10	
Techcombank (Vietnam)	Joint Stock Bank	1.1	15.5	HSBC	Dec-05	17	10	
VB Bank (Vietnam)	Joint Stock Bank	0.6		OCBC	Mar-06		10	
Orient Commercial Bank	Joint Stock Bank	0.4		BNP Paribas	Nov-06		10	
Southern Bank (Vietnam)	Joint Stock Bank	0.6		UOB	Jun-07		10	
Habubank (Vietnam)	Joint Stock Bank	0.7		Deutsche Bank	Feb-07		10	
Eximbank (Vietnam)	Joint Stock Bank	1.5		SMBC	Mar-07		10	
Akbank (Turkey)	Third largest bank	53.4	29	Citibank	Jan-07	3.100	20	
Ekonomi (Indonesia)		1.8	30	HSBC	Oct-08	608	89.9	

Sources: Hope and Hu (2006), Thanh (2008) and other sources.