CAPITAL MARKET WORKING GROUP REPORT

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1. State-owned enterprises corporatization and public divestment from sectors that are not sensitive to national security

1.1 Comments

1.1.1 The state coffers remain limited despite the huge need for public spending and investment. Revenues from taxes become smaller as the economy is in difficulty and in alignment with WTO duty cut pathways. Just recently, the government applied for the state budget over-expenditure cap to be increased to 5.3% of GDP from 4.8%.

1.1.2 The gross capitalized value of the public shareholding in 11 companies among the 20 largest listed companies on the Ho Chi Minh City Stock Exchange (by capitalization criteria) is US$ 14.8 billion, or 38% of the value of the entire HCMC Stock Exchange. Shareholdings that exceed 50% alone in these 11 companies are worth US$ 4.4 billion. Selling parts of these companies will easily compensate for the state budget deficit in the current difficult time, instead of cutting the minimum wage or resorting to other extreme measures. The sold companies will still be subject to local regulations, operating on Vietnam soil, paying taxes and employing local human resources.

1.1.3 A large number of the companies in which the government holds major shares are not engaged in sensitive lines of business, event by Vietnam's current standards. Examples include consumer goods or fertilizers.

1.1.4 State-owned enterprises have access to more incentives in terms of policies and lending compared to the private sector. This creates an unfair playground between the two, hampers the development of the private sector, while the public sector is inefficient and offers no good products or services. This further impairs the competitiveness of Vietnamese companies' goods and services as a whole as they enter regional and global markets.

1.2 Recommendations

From what has been seen with other regional peers, we recommend:

1.2.1 Increasing foreign equity and cutting public shareholding by selling public equity in non-sensitive joint stock companies;

1.2.2 A first step may be cutting public equity in listed companies down to between 35% and below 50%. The rate can be further reduced at a later stage.

1.2.3 The corporatization process for wholly state-owned enterprises should be accelerated.

1.2.4 The list of sensitive lines of business should be reviewed and trimmed down.

2. Allowing electricity plants to sell directly to household end-users

2.1 Background

2.1.1 Vietnam is now one of the countries with the largest wind power potentials in the ASEAN community, as the country lies in the way of strong and reliable wind streams.

2.1.2 The national master plan for electricity, Phase VII, encompasses the goal of reaching wind power output of 1,000 MWs (megawatts) by 2020.

2.1.3 Development of wind power plants, however, is much slower than expected, as the combined output of currently operating plants is only 46 MWs.

2.1.4 Estimates by 2015 indicate that the power market in Vietnam will loosen to allow independent power producers to sell directly to households through rental of EVN's distribution infrastructure system.

2.2 Current concerns

2.2.1 The prices that EVN agrees to pay independent power producers in accordance with government-subsidized power purchase agreements are too low to provide investors any profit, or too little to guarantee for bank loans.

2.2.2 As EVN is incurring major losses, foreign investors and banks are not likely to accept EVN's plan to buy electricity from wind power plants, unless guarantees from the government of Vietnam are offered.

2.2.3 Professional wind power producers with high reliability and financial capacity have had no opportunities to enter the Vietnam market.

2.3 Recommendations and perceived benefits

2.3.1 Permitting trial of select wind power projects where independent power producers may sell directly to households through one-on-one power purchase agreements; Independent power producers will pay distribution infrastructure rental fees to EVN,

2.3.2 A power purchase agreement directly signed between an independent wind power producer and an end-user being a multinational company can be used by wind power developers as security for loans applied with international banks, together with their own financial resources, for their investment in the power sector in Vietnam in the future.

2.3.3 The 1,000 MW goal can be achieved if the direct power sale trials are successful without any guarantees from the government, or any power price offset by EVN.